

Leading Brands, Inc.
Consolidated Financial Statements
February 28, 2005 and February 29, 2004
(Expressed in US Dollars)

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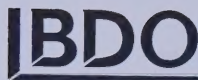
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Driving Growth

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Independent Auditors' Report

To the Shareholders of Leading Brands, Inc.

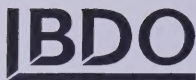
We have audited the Consolidated Balance Sheets of Leading Brands, Inc. as at February 28, 2005 and February 29, 2004 and the Consolidated Statements of Income (Loss) and Deficit and Cash Flows for each of the years in the three-year period ended February 28, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2005 and February 29, 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2005 in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada
May 6, 2005



Driving Growth

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Comments by Auditors for US Readers on Canada – United States Reporting Differences

The reporting standards of the Public Company Accounting Oversight Board (United States) for auditors require the addition of an explanatory paragraph when the financial statements reflect a change in accounting policy, such as described in Note 1 for stock-based compensation. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report dated May 6, 2005 is expressed in accordance with Canadian reporting standards which do not permit reference to such an event in the auditors' report when it is adequately disclosed in the financial statements.

BDO Dunwoody LLP

Chartered Accountants

Vancouver, Canada
May 6, 2005

Leading Brands, Inc.
Consolidated Balance Sheets
(Expressed in US Dollars)

Feb. 28, 2005 Feb. 29, 2004

Assets

Current

Accounts receivable (Note 19 (b))	\$ 2,247,896	\$ 3,622,420
Inventory (Note 2)	2,823,307	3,495,331
Prepaid expenses and deposits	213,635	206,719
Future income taxes – current (Note 16)	275,639	568,990

5,560,477 7,893,460

Property, plant and equipment (Note 3)	9,866,592	9,796,583
Trademarks and rights (Note 4)	88,334	81,575
Goodwill (Note 5)	2,718,721	2,510,701
Deferred costs (Note 6)	157,207	150,681
Other	125,783	74,868
Future income taxes – long term (Note 16)	2,092,128	1,812,467

Total Assets	\$ 20,609,242	\$ 22,320,335
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Liabilities and Shareholders' Equity

Liabilities

Current

Bank indebtedness (Note 8)	\$ 2,512,897	\$ 3,179,800
Accounts payable and accrued liabilities	2,999,526	5,526,816
Current portion of long-term debt (Note 9)	947,429	859,858

6,459,852 9,566,474

Long-term debt (Note 9)	2,913,843	3,443,512
	<u>9,373,695</u>	<u>13,009,986</u>

Shareholders' Equity

Share Capital

Authorized (Note 11(a))

500,000,000 common shares without par value

20,000,000 preferred shares without par value

Issued

15,045,069 common shares (2004 – 15,040,169)

(Note 11(b))

25,799,818 25,795,379

Contributed surplus (Note 12)

1,297,133 154,371

Currency translation adjustment

1,873,354 884,650

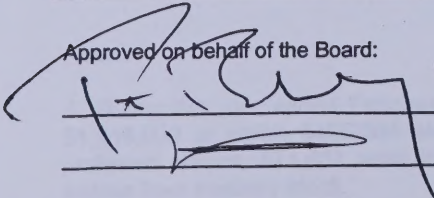
Deficit

(17,734,758) (17,524,051)

11,235,547 9,310,349

Total Liabilities and Shareholders' Equity	\$ 20,609,242	\$ 22,320,335
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Approved on behalf of the Board:

 Director

 Director

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Income (Loss) and Deficit
(Expressed in US Dollars)

For the year ended	Feb. 28, 2005	Feb. 29, 2004	Feb. 28, 2003
Gross Sales	\$ 34,415,849	\$ 41,773,575	\$ 48,193,393
Less: Discounts, allowances and rebates	(849,645)	(976,649)	(917,153)
Net Sales	33,566,204	40,796,926	47,276,240
Expenses (income)			
Cost of sales	23,543,348	31,403,389	37,924,637
Selling, general and administrative	8,576,241	9,867,894	8,977,802
Amortization of property, plant and equipment	878,770	896,406	755,469
Amortization of deferred costs and other	80,768	296,875	271,823
Interest on long-term debt	202,687	161,843	110,705
Interest on current debt	112,483	177,787	155,676
Interest accretion on redeemable preferred shares (Note 10)	-	-	147,615
Write down of investment in Quick Home Delivery Operations (Note 7)	-	-	6,523,880
Write down of deferred costs	-	632,579	-
Gain on contract settlements (Note 15)	(695,585)	-	-
(Gain) loss on sale of assets	43,590	9,083	(5,897)
	32,742,302	43,445,856	54,861,710
Income (loss) before income taxes	823,902	(2,648,930)	(7,585,470)
Income taxes recovery (expense) (Note 16)	(198,259)	801,440	1,335,344
Net income (loss) for the year	625,643	(1,847,490)	(6,250,126)
Dividends	-	-	(22,138)
Deficit, beginning of year, as previously reported	(17,524,051)	(15,676,561)	(9,404,297)
Adjustment for change in accounting policy (Note 1)	(836,350)	-	-
Deficit, beginning of year, as restated	(18,360,401)	(15,676,561)	(9,404,297)
Deficit, end of year	\$ (17,734,758)	\$ (17,524,051)	\$ (15,676,561)
Earnings (loss) per share (Note 11(j))			
Basic and diluted	\$ 0.04	\$ (0.12)	\$ (0.46)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Consolidated Statements of Cash Flows
(Expressed in US Dollars)

For the year ended	Feb. 28, 2005	Feb. 29, 2004	Feb. 28, 2003
Cash provided by (used in)			
Operating activities			
Net income (loss) for the year	\$ 625,643	\$ (1,847,490)	\$ (6,250,126)
Items not involving cash			
Amortization of property, plant and equipment	878,770	896,406	755,469
Amortization of deferred costs and other	80,768	296,875	271,823
Loss (gain) on sale of assets	43,590	9,083	(5,897)
Write-down of deferred costs	-	632,579	-
Write-down of investment in Quick Home			
Delivery Operations	-	-	6,523,880
Interest accretion on redeemable preferred shares	-	-	147,615
Write-down and return of property, plant and equipment	-	-	17,697
Stock based compensation expense	306,412	105,616	-
Issue of shares for employee compensation (Note 11)	-	-	71,657
Changes in non-cash operating working capital items (Note 17)	(366,976)	(141,326)	400,196
Future income taxes	201,949	(805,383)	(1,335,344)
	<u>1,770,156</u>	<u>(853,640)</u>	<u>596,970</u>
Investing activities			
Purchase of property, plant and equipment	(256,329)	(541,776)	(944,931)
Advances for Quick Home Delivery Operations	-	-	(693,953)
Proceeds on sale of property, plant and equipment	40,715	63,730	25,677
Expenditures on deferred costs	(75,065)	(209,870)	(781,094)
	<u>(290,679)</u>	<u>(687,916)</u>	<u>(2,394,301)</u>
Financing activities			
Increase (decrease) in bank indebtedness	(890,440)	(57,057)	1,638,349
Issuance of common shares (Notes A and 11)	4,439	310,849	406,884
Proceeds from issuance of long-term debt	363,829	1,728,180	638,814
Repayment of long-term debt	(1,128,209)	(724,006)	(649,156)
	<u>(1,650,381)</u>	<u>1,257,966</u>	<u>2,034,891</u>
Increase (decrease) in cash	<u>(170,904)</u>	<u>(283,590)</u>	<u>237,560</u>
Effect of exchange rate changes on cash	<u>170,904</u>	<u>283,590</u>	<u>(237,560)</u>
Cash, beginning and end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Supplementary disclosure of cash flow information			
Cash paid during the year			
Income tax payments (recovery), net	\$ (3,690)	\$ 3,943	\$ -
Interest paid	\$ 315,476	\$ 334,842	\$ 266,380

Notes:

A. During the year ended February 28, 2003, the Company issued common shares with a value of \$1,918,002 of which \$406,884 were issued for cash, \$1,553,055 were issued for conversion of preferred shares, \$71,657 were issued for employee compensation and \$113,594 were cancelled shares from treasury stock.

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which, in the case of the Company, differ in certain respects from generally accepted accounting principles in the United States ("US GAAP") as explained in Note 21. Details of significant accounting policies are as follows:

Nature of Business

Leading Brands, Inc. and its subsidiaries are engaged in the bottling, distribution, sales, merchandising and brand management of beverages and food products across North America. The Company primarily operates in the following integrated activities: beverage packaging, food and beverage sales and distribution, as well as brand licensing and development.

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its wholly owned Canadian and United States subsidiaries, together with a 90.5% interest (2004 – 91%) in KERT Technologies, Inc. (Note 13(c)) and a 97% (2004 – 97%) interest in Quick, Inc. All intercompany transactions and balances have been eliminated. The Company fully consolidated Kert Technologies, Inc. and Quick, Inc. and recorded its minority interest, however since the minority interest's proportionate loss is in excess of the minority interest's contribution, the loss has been absorbed by the Company. Accordingly, no minority interests appear on the Company's consolidated balance sheets and statements of income (loss) and deficit.

Inventory

Raw materials and finished goods purchased for resale are valued at the lower of cost determined on a first-in, first-out basis and net realizable value. Finished goods, produced from manufacturing operations, are valued at the lower of standard cost which approximates average cost and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized using the declining-balance method at annual rates as follows:

Plant and equipment	- 7% to 20%
Buildings	- 5%
Automotive equipment	- 20%
Land improvements	- 8%
Furniture and fixtures and computer hardware and software	- 20%

Leasehold improvements are amortized over the lesser of their expected life or the lease term.

Management periodically performs a review of undiscounted future operating cash flows to assess the valuation of the property, plant and equipment. Property, plant and equipment are written down when a permanent and significant impairment in their value has occurred.

Leading Brands, Inc.
Summary of Significant Accounting Policies
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

Software Development for Internal Use

Software development costs including costs related to acquired software which are expected to provide future benefits with reasonable certainty are deferred and amortized as described above.

Deferred Charges

Start-up costs are amortized over a five year period, from the time when commercial operations of the applicable business units commence. Certain new product promotion and launch costs are deferred and amortized over 36 months commencing with the date of launch of the related product.

Management periodically performs a review of the related undiscounted future operating cash flows to assess the valuation of deferred costs. Deferred costs are written down when a permanent and significant impairment in their value has occurred. In fiscal 2004, a write down of \$632,579 was taken on deferred costs.

Revenue Recognition

Revenue on sales of products is recognized when the products are delivered and title transfers to customers. Revenues from the provision of manufacturing, packaging or other services are recognized when the services are performed and collection of related receivables is reasonably assured.

Shipping and Handling Fees and Costs

The Company records shipping and handling revenue as a component of sales revenue and shipping and handling costs as a component of cost of sales.

Foreign Currency Translation and Transactions

The functional currency of the Company is the Canadian dollar. These financial statements are reported in US dollars for the convenience of US readers. Transactions denominated in US dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities, including intercompany balances, have been translated into Canadian dollars at the year end exchange rate. All exchange gains and losses are included directly in earnings. Exchange gains and losses included in earnings that related to long-term debt are considered to be an integral part of financing costs and accordingly, are included in interest expense.

Assets and liabilities of the Company's operations having a functional currency other than the US dollar are translated into US dollars using the exchange rate in effect at the year-end date and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

1. Change in Accounting Policy

Stock Based Compensation

Effective March 1, 2004, the Company has retroactively adopted, without restatement, the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", which now requires companies to adopt the fair value based method for all stock-based awards granted on or after March 1, 2002. Previously the Company was only required to disclose the pro forma effect of stock options granted to employees and directors in the notes to the financial statements. The effect of this change in accounting policy was to increase the deficit and contributed surplus as of March 1, 2004 by \$836,350.

2. Inventory

	2005		2004	
Finished goods	\$	1,402,645	\$	1,308,375
Raw materials		1,420,662		2,186,956
	\$	2,823,307	\$	3,495,331

3. Property, plant and equipment

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Plant and equipment	\$ 13,255,258	\$ 5,931,761	\$ 7,323,497	\$ 7,191,475
Buildings	1,561,366	674,798	886,568	859,706
Automotive equipment	701,548	521,614	179,934	186,442
Land	351,530	-	351,530	324,633
Land improvements	360,043	208,646	151,397	151,971
Leasehold improvements	123,050	81,586	41,464	39,977
Furniture and fixtures	548,108	407,625	140,483	158,880
Computer hardware and software	2,049,129	1,257,410	791,719	883,499
	\$ 18,950,032	\$ 9,083,440	\$ 9,866,592	\$ 9,796,583

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

4. Trademarks and Rights

	2005	2004
Trademarks and rights	\$ 258,229	\$ 238,471
Less accumulated amortization	(169,895)	(156,896)
	<u>\$ 88,334</u>	<u>\$ 81,575</u>

In connection with the decision to discontinue its support of the NTI investment, as part of the write-down in investment, the Company wrote down \$233,713 in trademarks and rights during 2003 (Note 7). There were no additions to trademarks and rights during the year ended February 28, 2005. The change in the trademarks and rights amount from the prior year was due to translation adjustments.

5. Goodwill

	2005	2004
Goodwill	\$ 3,563,842	\$ 3,291,158
Less accumulated amortization	(845,121)	(780,457)
	<u>\$ 2,718,721</u>	<u>\$ 2,510,701</u>

The change in the goodwill balance from the prior year was due to translation adjustments.

6. Deferred Costs

	2005	2004
Product development costs	\$ 127,581	\$ 665,013
Start up costs	146,336	421,291
	<u>273,917</u>	1,086,304
Less: accumulated amortization	(116,710)	(300,066)
Less: write-down	-	(635,557) *
	<u>\$ 157,207</u>	<u>\$ 150,681</u>

* Amount translated at the exchange rate in effect at the year-end date.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

7. Write Down of Investment

At the end of fiscal year 2003, the Company decided to discontinue its support of its investment in Quick Home Delivery Operations and recorded a \$6,523,880 write-down of this investment.

8. Bank Indebtedness

	2005	2004
Bank indebtedness	<u>\$ 2,512,897</u>	<u>\$ 3,179,800</u>

The Company has a demand revolving operating bank loan with a credit limit of \$3,648,156 (2004 - \$3,369,020). Interest is charged on the drawn-down amounts at the bank prime rate plus 0.75% - 1.25% (2004 - 0.75-1.25%). The bank prime rate at February 28, 2005 was 4.25% (2004 - 4.25%). The operating loan is collateralized by a charge on all assets of the Company and an assignment of all risk insurance on land, buildings, equipment and inventory owned by the Company.

Bank indebtedness includes a demand revolving operating loan of \$2,255,806 (2004 - \$2,598,042) and un-presented cheques of \$272,407 (2004 - \$588,863) and is net of cash of \$15,316 (2004 - \$7,105).

The agreement with respect to the bank indebtedness contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in compliance with all but the current ratio covenant at February 28, 2005. Subsequent to the year end, the lender renewed the Company's loans.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

9. Long-term Debt

	2005	2004
a) Bank loan, principal of \$69,092 plus interest repayable per month, collateralized as described in Note 8, with interest at a rate of bank prime plus 1%, due on demand.	\$ 3,186,508	\$ 3,483,759
b) Mortgage, principal and interest repayable at \$4,661 per month including interest at a one-year fixed rate of 4.53% per annum, collateralized by a first mortgage on certain land and buildings and due May 1, 2009. Replaced with principal and interest repayable at \$4,983 per month including interest at a one year fixed rate of 5.61% per annum until May 1, 2006, thereafter floating interest rate at prime plus 1%.	586,430	443,788
c) Promissory note of \$200,000, repayable in semi-annual instalments of \$20,000 plus interest at 8% per annum, on May 31 and November 30, commencing May 31, 2000, due November 29, 2004. Instalments paid until November 30, 2002. This note is unsecured.	88,334	81,575
d) Other	-	294,248
	3,861,272	4,303,370
Less current portion	947,429	859,858
	\$ 2,913,843	\$ 3,443,512

Principal due over the remaining terms of the long-term debt is as follows:

2006	\$ 947,429
2007	860,482
2008	861,933
2009	733,479
2010	35,932
2011 and thereafter	422,017
	<u>\$ 3,861,272</u>

The agreement with respect to the bank loan (Note (a)) contains a demand feature whereby the bank can demand repayment at any time. The bank has indicated that it does not expect repayment of the loan other than as scheduled, accordingly, the principal payments are classified in accordance with the bank loan repayment schedule.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

10. Redeemable Preferred Shares

During 2001, the Company entered into an obligation to issue 2,000,000 Class E redeemable, convertible preferred shares ("Class E shares") at CDN\$1.00 per share to a company with a director in common with the Company. The Class E shares could have been redeemed at the shareholder's option for cash at any time after January 1, 2004. Accordingly, under Canadian GAAP, the obligation to redeem the Class E shares for cash was recorded as a liability, with the remaining amount reflected as equity. The liability portion of the Class E shares was initially recorded at its fair value of \$1,003,739, calculated as the present value at January 1, 2001 of the redemption value of the outstanding Class E shares of \$1,310,034, plus the present value of the annual dividends for the period of entitlement from January 1, 2002 to December 31, 2003 using a discount rate of 9%. The equity component was determined using an option pricing model and calculated as \$306,295 at February 28, 2001. The shares were issued on March 6, 2001. Interest expense on the liability portion was to be recognized over the three-year period from the date the Company entered into an obligation to issue the shares to the first redemption date of December 31, 2003 at a rate of 9% per annum. The preferred shares were converted to 788,626 common shares on December 31, 2002 at the rate of \$1.75 per share (see Notes 11(a)(iv) and (b)). For the year ended February 28, 2005, the Company recorded interest expense of \$Nil (2004 - \$Nil; 2003 - \$147,615).

11. Share Capital

a) Authorized share capital

	Number of Shares	
	2005	2004
Common shares without par value	500,000,000	500,000,000
Preferred shares without par value	9,999,900	9,999,900
Series "A" preferred shares	1,000,000	1,000,000
Series "B" preferred shares	100	100
Series "C" preferred shares	1,000,000	1,000,000
Series "D" preferred shares	4,000,000	4,000,000
Series "E" preferred shares	4,000,000	4,000,000
	20,000,000	20,000,000

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

11. Share Capital – Continued

The rights and restrictions attached to the shares are as follows:

- i) The Series A and B preferred shares bear annual preferential non-cumulative dividends at a rate of 5% per annum and are redeemable at the Company's option or retractable at the holder's option with 21/days notice.
- ii) The Series C preferred shares bear annual preferential dividends at a rate of 8% per annum, calculated monthly. The shares are convertible to common shares based upon the conversion value of the amount paid for the shares, together with any unaccrued unpaid dividends, for a period of five years, at the following conversion prices per common share: \$1.25 for the first year from the date of issue, \$1.45 for the second year from the date of issue, \$1.70 for the third year from the date of issue, \$2.00 for the fourth year from the date of issue and \$2.35 for the fifth year following the date of issue.
- iii) The Series D preferred shares bear annual preferential cumulative dividends at a rate of 8% per annum calculated monthly. The shares are convertible to common shares based upon the conversion value of the amount paid for the shares, together with any accrued unpaid dividends, for a period of five years, at the following conversion prices per common share: \$1.25 for the first year from the date of issue, \$1.45 for the second year from the date of issue, \$1.70 for the third year from the date of issue, \$2.00 for the fourth year from the date of issue and \$2.35 for the fifth year following the date of issue.

There are no Series A, B, C or D preferred shares outstanding as at February 28, 2005 and February 29, 2004.

- iv) The Series E preferred shares bear annual preferential cumulative dividends at a rate of 9% per annum commencing on the first anniversary from the date of issue. The shares are convertible to common shares based upon the conversion value of the amount paid for the shares, together with any accrued unpaid dividends, for a period of three years, at the following conversion prices per common share: \$1.50 for the first year from the date of issue, \$1.75 for the second year from the date of issue and \$2.00 for the third year following the date of issue. The Series E preferred shares were converted to 788,626 common shares on December 31, 2002 (Note 10) and none were outstanding as at February 28, 2005 and February 29, 2004.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

11. Share Capital – Continued

g) Share Purchase Warrants Information

	Number of Warrants	Weighted Average Exercise Price
Outstanding at March 1, 2002 and February 28, 2003	875,000	\$ 1.21
Exercised	(50,000)	1.00
Outstanding at February 29, 2004	825,000	1.23
Expired	(475,000)	1.29
Outstanding at February 28, 2005	350,000	\$ 1.14

As at February 28, 2005, all of the outstanding warrants were exercisable and will expire on August 21, 2006.

h) Shareholder Protection Rights Plan

On August 26, 2003, a Shareholder Protection Rights Plan was adopted whereby one share purchase right is attached to each outstanding common share, exercisable only in the case of a specific event, such as the acquisition by an acquirer of 20% or more of the issued common shares of the Company, and at a predetermined calculated price.

i) Share Buyback

During 2001, the Company decided to repurchase up to 10% of its issued and outstanding shares at prices from time to time determined to be appropriate by management.

During 2002, the Company repurchased 108,400 of its issued and outstanding shares. These shares were cancelled during 2003.

j) Earnings (Loss) Per Common Share

The Company uses the "Treasury Stock Method" to calculate earnings per common share. Under this method basic earnings per share is based on the weighted average aggregate number of common and non-voting shares outstanding during each period. The diluted earnings per share assumes that the redeemable preferred shares had been converted and the outstanding stock options and share purchase warrants had been exercised at the beginning of the period.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

11. Share Capital – Continued

Details of the numerator and denominator used in the calculation of earnings (loss) per share are as follows:

	2005	2004	2003
Numerator			
Net income (loss) for the year	\$ 625,643	\$ (1,847,490)	\$ (6,250,126)
Provision for dividends on preferred shares	-	-	(22,138)
Net income (loss) available to common shareholders	\$ 625,643	\$ (1,847,490)	\$ (6,272,264)
Denominator			
Weighted average shares outstanding	15,042,035	14,949,575	13,754,598
Effect of dilutive securities – stock options	90,645	-	-
Denominator for diluted EPS	15,132,680	14,949,575	13,754,598

For the year ended February 29, 2004 and February 28, 2003, common equivalent shares (consisting of mostly shares issuable on exercise of stock options and warrants) totaling 3,827,186 and 4,358,994, respectively, were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

12. Stock-Based Compensation

- a) Prior to the accounting change in 2004, Canadian generally accepted accounting principles only required disclosure of compensation expense for employee grants under the stock option plan as if the value of all options granted had been determined based on the fair market value based method. The Company's net loss for the prior period presented and net loss per common share would have been increased to the pro-forma amounts below had the fair value based method, adopted as at March 2004, been followed:

	Year Ended February 29 2004	Year Ended February 28 2003
Net loss – as reported	\$ (1,847,490)	\$ (6,250,126)
Total employees stock-based compensation expense determined using the fair value based method for all awards net of related tax effects	(592,622)	(243,728)
Net loss – pro-forma	(2,440,112)	(6,493,854)
Dividends	-	(22,138)
Net loss available to common shareholders	\$ (2,440,112)	\$ (6,515,992)
Basic and diluted income (loss) per share – as reported	\$ (0.12)	\$ (0.46)
Basic and diluted income (loss) loss per share – pro-forma	\$ (0.16)	\$ (0.47)

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

12. Stock-Based Compensation – Continued

- b) The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	2005	2004	2003
Risk-free rate	2.98% to 4.47%	2.46% to 3.27%	3.00% to 4.38%
Dividend yield	Nil%	Nil%	Nil%
Volatility factor of the expected market price of the Company's common shares	115%	138%	138%
Weighted average expected life of the options (months)	60	60	60

- c) In connection with the vesting of certain non-employees, employees and directors stock options, the Company has recorded stock option compensation of \$306,412 (February 29, 2004 - \$123,803; February 28, 2003 - \$30,568) which was credited to contributed surplus, of which, \$Nil (February 29, 2004 - \$18,187; February 28, 2003 - \$30,568) was included in deferred costs for product development and \$306,412 (February 29, 2004 - \$105,616; February 28, 2003 - \$Nil) was expensed in the year.

13. Commitments

- a) The Company is committed to annual operating leases for premises and equipment. The minimum annual lease payments for the next five years and thereafter are as follows:

2006	\$ 1,287,461
2007	888,029
2008	560,038
2009	63,003
2010	-
Total future minimum lease payments	<u>\$ 2,798,531</u>

- b) The Company has commitments with various suppliers to purchase certain volumes of materials. It is not anticipated that losses will be incurred on these contracts.
- c) During the year ended February 28, 2005, the Company transferred 0.5% of its interest in KERT Technologies, Inc. ("KERT") to an independent party. The Company has no further commitments to transfer shares of KERT.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

14. Contingencies

- a) Certain former employees of the Company have commenced actions against the Company seeking damages for wrongful dismissal, breach of contract, negligent misrepresentations and other claims. The Company believes it has substantial defences to the claims, has initiated counter claims and is vigorously defending the actions. The amount and likelihood of loss, if any, is not presently determinable.
- b) The Company is also a party to various other legal claims which have arisen in the normal course of business, none of which are expected to have a material adverse effect on the financial position or results of operations of the Company.

15. Gain on Contract Settlement

The Company recorded other income in the fiscal year 2005 of \$695,585 from the settlement of certain disputes and resultant contract cancellations. Due to the nature of payment, they are non-recurring.

16. Income Taxes

	2005	2004	2003
Current	\$ (3,690)	\$ 3,943	\$ -
Future	201,949	(805,383)	(1,335,344)
	<u>\$ 198,259</u>	<u>\$ (801,440)</u>	<u>\$ (1,335,344)</u>

The difference in income tax expense (recovery) due to differences between the Canadian statutory federal income tax rate and the Company's effective income tax rate applied to income (loss) before income taxes was as follows for each of the years in the three year period ended February 28, 2005:

	2005	2004	2003
Income tax expense (recovery) computed at basic Canadian statutory rates	35.6%	(35.6)%	(37.6)%
Effect of non-deductible amounts	50.3%	31.4%	23.4%
Effect of changes in foreign exchange rates	45.2%	-%	-%
Recognition of future income tax expenses	86.9%	-%	-%
Recognized tax benefits	(62.4)%	(5.1)%	(0.1)%
Changes in valuation allowance	(131.5)%	(20.9)%	(3.3)%
	<u>24.1%</u>	<u>(30.2)%</u>	<u>(17.6)%</u>

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

16. Income Taxes - continued

The effects of each type of temporary difference that gives rise to the future income tax assets and liabilities are as follows:

	2005		2004
Operating and other losses carried forward	\$ 2,449,041	\$	3,405,383
Property, plant and equipment	139,098		331,900
Trademark and deferred costs	52,574		-
Total future income tax assets	2,640,713		3,737,283
Valuation allowance	(272,946)		(1,355,826)
Net future income tax assets	2,367,767		2,381,457
Less: current portion	275,639		568,990
	\$ 2,092,128	\$	1,812,467

The Company has provided a valuation allowance against a portion of the future income tax assets. As at February 28, 2005, the Company and its subsidiaries have accumulated net operating losses in the amount of approximately \$2.01 million which can be applied against future earnings. The net operating loss carryforward amounts commence to expire in 2006.

17. Changes in Non-Cash Operating Working Capital Items

	2005		2004		2003
Non cash working capital related to operations:					
Accounts receivable	\$ 1,560,005	\$	(1,063,691)	\$	999,079
Inventory	920,364		293,777		(1,729,470)
Prepaid expenses and deposits	9,773		547,131		(601,178)
Accounts payable and accrued liabilities	(2,857,118)		81,457		1,731,765
	\$ (366,976)	\$	(141,326)	\$	400,196

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

18. Related Party Transactions

Related party transactions not disclosed elsewhere are as follows:

	2005	2004	2003
i) Incurred consulting fees with a company related by a director in common (the President)	\$ 65,177	\$ 61,507	\$ 53,901
ii) Incurred professional service fees with a company related by a director in common for the services of the President	\$ 372,439	\$ 351,468	\$ 287,564
iii) Incurred services from a company related by a director in common	\$ 9,753	\$ 11,237	\$ 10,674
iv) Sold water to a company with a director in common	\$ 11,685	\$ 9,841	\$ 8,085
v) Purchased product from a company with a director in common	\$ 250,126	\$ 184,743	\$ 171,584
vi) Incurred consulting fees with a company related by an officer in common	\$ 241,076	\$ 154,300	\$ 138,193

The above-noted transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

19. Fair Value of Financial Instruments, Credit Risk and Interest Rate Risk

a) Fair Value of Financial Instruments

The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their respective fair values due to the short-term or demand nature of the instruments. The fair value of long-term debt has been estimated at \$3,866,000 (2004 - \$4,305,000).

b) Credit Risk

The Company's customers consist mainly of wholesale and retail grocery suppliers and food distributors principally located in North America. During the fiscal year ended February 28, 2005, the Company's ten largest customers comprised approximately 75% (2004 - 65%; 2003 - 75%) of sales and no one customer comprised more than 18% (2004 - 17%; 2003 - 27%) of sales. In addition, to cover credit risk, the Company performs ongoing credit evaluations of its customers' financial condition.

Accounts receivable are presented net of an allowance for doubtful accounts in the amount of \$457,143 at February 28, 2005 and \$426,139 at February 29, 2004.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

19. Fair Value of Financial Instruments, Credit Risk and Interest Rate Risk - Continued

c) Interest Rate Risk

The Company has bank indebtedness that is subject to floating rates of interest. Changes in the interest rate may cause fluctuations in the results of operations of the Company.

20. Segmented Information

The Company operates in one industry segment being the production and distribution of beverages and food products. The Company's principal operations are comprised of an integrated bottling and distribution system for beverages, water and snack foods. Substantially, all of the Company's operations, assets and employees are located in Canada and export sales during all the years reported are less than 15%.

21. Differences Between Canadian and United States Generally Accepted Accounting Principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which, in the case of the Company, differs in certain respects from US GAAP.

Material differences between Canadian and US GAAP are summarized below:

a) Adjustments to Consolidated Financial Statements

Adjustments to Consolidated Statements of Income (Loss)

	2005	2004	2003
Net income (loss) for the year, Canadian GAAP	\$ 625,643	\$ (1,847,490)	\$ (6,250,126)
Write-off product launch costs and certain deferred costs based on SOP 98-5(i)	(75,065)	(228,647)	(822,757)
Amortization of deferred costs (i)	80,768	284,153	257,040
Write down of deferred costs (i)	-	632,579	-
Fair value of options granted to employees (ii)	186,981	-	-
Interest accretion on redeemable preferred shares (vi)	-	-	147,615
Reduction of write down of investment of Quick Home Delivery Operations (v)	-	-	1,007,550
Compensation costs recorded on application of FIN 44 (iii)	(35,543)	920,866	(158,371)
Net income (loss) for the year, US GAAP	782,784	(238,539)	(5,819,049)
Provision for dividends on preferred shares	-	-	(96,253)
Net income (loss) available to common shareholders, US GAAP	\$ 782,784	\$ (238,539)	\$ (5,915,302)
Basic and diluted earnings (loss) per share, US GAAP	\$ 0.05	\$ (0.02)	\$ (0.43)

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

21. Differences Between Canadian and United States Generally Accepted Accounting Principles – Continued

a) **Adjustments to Consolidated Financial Statements – Continued**

Adjustments to Assets, Liabilities and Shareholders' Equity

	2005		2004
Total assets, Canadian GAAP	\$ 20,609,242	\$	22,320,335
Write-off product launch costs and certain Deferred costs (i)	(157,207)		(150,681)
Total assets, US GAAP	\$ 20,452,035	\$	22,169,654
 Total liabilities, Canadian and US GAAP	 \$ 9,373,695	 \$	 13,009,986
Total shareholders' equity, Canadian GAAP	11,235,547		9,310,349
Change in deficit relating to:			
Application of SOP 98-5 (i)	82,771		89,297
Application of EITF 00-2 (iv)	(239,978)		(239,978)
Total shareholders' equity, US GAAP	11,078,340		9,159,668
Total liabilities and shareholders' equity, US GAAP	\$ 20,452,035	\$	22,169,654

	2005		2004		2003
Cash flows from operating activities under Canadian GAAP	\$ 1,770,156	\$	(853,640)	\$	596,970
Application of SOP 98-5 and EITF 00-2 (i), (iv)	(75,065)		(209,870)		(792,189)
Cash flows provided by (used in) operating activities under US GAAP	\$ 1,695,091	\$	(1,063,510)	\$	(195,219)
Cash flows used in investing activities under Canadian GAAP	\$ (290,679)	\$	(687,916)	\$	(2,394,301)
Application of SOP 98-5 and EITF 00-2 (i), (iv)	75,065		209,870		792,189
Cash flows used in investing activities under US GAAP	\$ (215,614)	\$	(478,046)	\$	(1,602,112)

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

21. Differences Between Canadian and United States Generally Accepted Accounting Principles - Continued

a) Adjustments to Consolidated Financial Statements – Continued

i) Product Launch and Deferred Costs

Under US GAAP, according to Statement of Position ("SOP") 98-5, *Reporting on the Costs of Start-Up Activities*, costs incurred prior to commercial production of a product, costs incurred to establish business in a new territory and costs incurred to initiate a new process in an existing facility are to be expensed as incurred. Under Canadian GAAP, these costs may be capitalized to the extent that they meet specified criteria for recoverability.

During the year ended February 28, 2005, costs incurred in the development of a product and distribution network totaled \$75,065 (2004 - \$228,647; 2003 - \$822,757) which were capitalized under Canadian GAAP. Stock option compensation costs of \$Nil (2004 - \$18,187; 2003 - \$30,568) were included in the capitalized product development costs. The difference in cash flows was due to foreign currency translation.

ii) Stock based compensation

Effective March 1, 2004, the Company adopted, on a retroactive basis without restatement, the Canadian GAAP fair-value-based method for all stock-based awards granted on or after January 1, 2002. U.S. GAAP does not require the fair-value-based method to account for employee based options as of January 1, 2002. Since the Company granted options to employees in the year ended February 29, 2005, the retroactive adoption without restatement of the new Canadian requirements has created differences between Canadian and U.S. GAAP with respect to the net loss for the year ended February 28, 2005. There would however be no adjustment to deficit as well as contributed surplus at March 1, 2004 under U.S. GAAP as was required under Canadian GAAP.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

21. Differences Between Canadian and United States Generally Accepted Accounting Principles – Continued

Under US GAAP, the Company applies Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related FASB Interpretation No. 44 ("FIN 44") in accounting for all stock options granted to employees and directors. Under APB 25, compensation expense is generally recognized for stock options granted with exercise prices below the market price of the underlying common shares on the date of grant. Stock options that have been modified to reduce the exercise price are accounted for as variable. Stock options that have been modified to increase life are remeasured as if the awards were newly granted. As such, related pro-forma information as described in SFAS No. 123 has been disclosed as follows:

	Year Ended February 28 2005	Year Ended February 29 2004	Year Ended February 28 2003
Net income (loss) for the year under U.S. GAAP – as reported	\$782,784	\$(238,539)	\$(5,819,049)
Deduct: Total stock-based employee compensation expense determined under fair-value-based methods for all awards	(154,313)	(592,622)	(243,728)
Net loss for the year – pro-forma	\$628,471	\$(831,161)	\$(6,062,777)
Basic and diluted net loss per common share – pro-forma	\$0.04	\$(0.06)	\$(0.44)

iii) Compensation expense recorded on application of FIN 44

During the year ended February 28, 2002, the Company repriced stock options previously granted to various employees and directors. Under FIN 44, the resulting intrinsic value of the stock options in the amount of \$Nil (2004 - \$920,866 recovery; 2003 - \$158,371 expense) are recorded as compensation. As the options are subject to variable accounting (marked to market until exercised, expired, or forfeited), compensation expense (recovery) is recorded in subsequent periods based on the fluctuation in the share price.

During the year ended February 28, 2005, the Company extended the term of 128,570 options for a period of five years. Additional compensation resulted from the modification totaled \$2,875 was recorded in accordance with FIN 44.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

21. Differences Between Canadian and United States Generally Accepted Accounting Principles – Continued

a) Adjustments to Consolidated Financial Statements – Continued

- iv) Under Emerging Issues Task Force Issue No. 00-2 (“EITF 00-2”), *Accounting for Website Development Cost* in the U.S., certain general design and indirect costs related to website development are required to be expensed rather than capitalized. In Canada there is no similar restriction and certain of these costs were capitalized.
- v) Under US GAAP, applicable to non-monetary related party transactions, the consideration received in connection with the sale of the Quick.com assets and business (Note 7) would be recorded at the amount of the book value of the assets disposed. As a result of applying EITF 00-2 and SOP 98-5 to the operations of the Quick business, the book value of the Quick business on disposition for US GAAP purposes differed from the Canadian GAAP book value and, thus, the value attributed to the NTI preferred shares had been adjusted accordingly.
- vi) Per SEC Regulation S-X, Rule 5-02.28 (“Rule 5-02.28”), preferred shares which are redeemable at the option of the holder for cash are classified as mezzanine equity.

As there is no equity portion of the preferred shares under US GAAP, in 2003, the \$147,615 interest accretion (Note 10) is eliminated and \$96,253 of dividends on preferred shares have been reflected.

vii) New Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment.” SFAS No. 123(R) would require the Company to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. For public entities that file as a foreign private issuer, SFAS No. 123(R) is effective for the first fiscal year beginning after June 15, 2005.

In December 2004, FASB issued SFAS No. 153 to amend Opinion 29 by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange is defined to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange.

The Company is assessing the effect on the consolidated financial statements as a result of the implementation of these new standards.

Leading Brands, Inc.
Notes to the Consolidated Financial Statements
(Expressed in US Dollars)

February 28, 2005 and February 29, 2004

21. Differences Between Canadian and United States Generally Accepted Accounting Principles – Continued

b) Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general purpose financial statements. Details would be disclosed as follows:

	2005		2004		2003
Net income (loss) available to common shareholders, US GAAP	\$ 782,784	\$	(238,539)	\$	(5,915,302)
Other comprehensive income:					
Foreign currency translation adjustments	988,704		1,083,495		863,588
Comprehensive income (loss), US GAAP	\$ 1,771,488	\$	844,596	\$	(5,051,714)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
U.S.A.

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR
12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **February 28, 2005**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-19884

LEADING BRANDS, INC.

[Exact name of Registrant as specified in its charter]

Not Applicable

[Translation of Registrant's name into English]

British Columbia, Canada

[Jurisdiction of incorporation or organization]

Suite 1800 – 1500 West Georgia Street, Vancouver, BC Canada V6G 2Z6

[Address of principal executive offices]

Securities registered or to be registered pursuant to Section 12(b) of the Act:
None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares Without Par Value

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
[Title of Class]

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

February 28, 2005 – **15,045,069** Common Shares without par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 ☒ Item 18 ☐

Securities and Exchange Commission
Washington, D.C. 20549 U.S.A.

Form 20-F
For the fiscal year ended February 28, 2005
Commission File No. 0-19884
Leading Brands, Inc.

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PART I

Item 1. – Identity of Directors, Senior Management and Advisers

This item is not applicable for an Annual Report.

Item 2. – Offer Statistics and Expected Timetable

This item is not applicable for an Annual Report.

Item 3. – Key Information

A. *Selected Financial data.*

1. and 2.

The following table sets forth certain selected consolidated financial information with respect to the Company for the periods indicated. It should be read in conjunction with this Annual Report and the Company's consolidated financial statements listed in Item 17 of this Annual Report. The following table is derived from, and is qualified by, the Company's financial statements and the notes thereto which have been prepared in accordance with generally accepted accounting principles in Canada.

Unless otherwise specified, all amounts set out in this Annual Report are expressed in United States dollars.

	YEAR ENDED Feb. 28, 2005	YEAR ENDED Feb. 29, 2004	YEAR ENDED Feb. 28, 2003	YEAR ENDED Feb. 28, 2002	YEAR ENDED Feb. 28, 2001
Net sales / operating revenue	\$33,566,204	\$40,796,926	\$47,276,240	\$41,013,507	\$50,297,646
Net Income (loss)	\$625,643	(\$1,847,490)	(\$6,250,126)	\$1,338,988	\$1,215,558
Net Income (loss) per share	\$0.04	(\$0.12)	(\$0.46)	\$0.10	\$0.09
Total assets	\$20,609,242	\$22,320,335	\$20,948,792	\$22,426,084	\$30,373,140
Net assets	\$11,235,547	\$9,310,349	\$9,639,692	\$13,296,913	\$12,619,395
Capital stock	\$27,096,951	\$25,949,750	\$25,515,098	\$23,452,934	\$23,566,528
Long-term Obligations	\$2,913,843	\$3,443,512	\$2,251,173	\$3,184,346	\$5,493,736
Cash dividends declared per common share	NIL	NIL	NIL	NIL	NIL

	YEAR ENDED Feb. 28, 2005	YEAR ENDED Feb. 29, 2004	YEAR ENDED Feb. 28, 2003	YEAR ENDED Feb. 28, 2002	YEAR ENDED Feb. 28, 2001
Weighted average number of common shares outstanding	15,042,035	14,949,575	13,754,598	13,593,310	10,390,165

For all years presented, diluted earnings per share was the same as basic except for 2001 where diluted EPS was \$0.08.

The following table sets forth the above financial information prepared in accordance with generally accepted United States accounting principles as disclosed in note 21 of the annual financial statements. The selected financial data should be read in conjunction with the Company's financial statements and the notes thereto, included elsewhere in this Annual Report.

	YEAR ENDED Feb. 28, 2005	YEAR ENDED Feb. 29, 2004	YEAR ENDED Feb. 28, 2003	YEAR ENDED Feb. 28, 2002	YEAR ENDED Feb. 28, 2001
Net sales / operating revenue	\$33,566,204	\$40,796,926	\$47,276,240	\$41,013,507	\$50,297,646
Net Income (loss)	\$782,784	(\$238,539)	(\$5,819,049)	\$3,511,343	(\$3,219,782)
Net Income (loss) per share	\$0.05	(\$0.02)	(\$0.43)	\$0.26	(\$0.34)
Total assets	\$20,452,035	\$22,169,654	\$20,133,137	\$21,189,083	\$24,954,200
Net assets	\$11,078,340	\$9,159,668	\$8,824,037	\$11,861,687	\$7,291,720
Capital Stock	\$27,096,951	\$25,949,750	\$25,515,098	\$23,142,225	\$23,521,712
Long-term Obligations	\$2,913,843	\$3,443,512	\$2,251,173	\$3,382,571	\$5,800,031
Cash dividends declared per common share	NIL	NIL	NIL	NIL	NIL

The primary difference between the income of \$625,643 under Canadian GAAP versus the income of \$782,784 under US GAAP for the year ended February 28, 2005 is the fair value based method to account for employee based options under Canadian GAAP not required under US GAAP.

For all years presented, the diluted earnings (loss) per share was the same as basic earnings per share.

3. Exchange Rates

The Company maintains its financial records in Canadian dollars and translates them into United States dollars for reporting purposes. In this Annual Report, unless otherwise specified, all dollar amounts are expressed in United States dollars. Assets and liabilities have been translated using the rate in effect at the fiscal year end (1.2335), while revenues and expenses have been translated at the average rate for the fiscal year (1.2888).

Exchange Rate – May 2, 2005: 1.2555

Exchange rates for the previous six months:

	April 1-30, 2005	March 1-31, 2005	Feb. 1-28, 2005	Jan. 1-31, 2005	Dec. 1-31, 2004	Nov. 1-30, 2004
High	1.2569	1.2438	1.2559	1.2412	1.2414	1.2243
Low	1.2147	1.2018	1.2249	1.2003	1.1837	1.1759
Average	1.2369	1.2157	1.2383	1.2245	1.2176	1.1957
End of Period	1.2585	1.2096	1.2335	1.2412	1.2020	1.1860

Exchange rates for the five most recent financial years:

	Mar. 1, 2004 to Feb.28, 2005	Mar. 1, 2003 to Feb.29, 2004	Mar. 1, 2002 to Feb.28, 2003	Mar. 1, 2001 to Feb.28, 2002	Mar. 1, 2000 to Feb. 28, 2001
High	1.3957	1.4907	1.5994	1.6132	1.5600
Low	1.1759	1.2692	1.4871	1.5099	1.4470
Average	1.2888	1.3657	1.5584	1.5631	1.4979
End of Period	1.2335	1.3357	1.4840	1.6020	1.5316

B. *Capitalization and indebtedness.*

This item is not applicable for an Annual Report.

C. *Reasons for the offer and use of proceeds.*

This item is not applicable for an Annual Report.

D. *Risk factors.*

Historically, the Company has had periods of unprofitable operations. The Company is engaged in a relatively capital intensive industry (bottling operations) that is subject to some seasonal fluctuations. In periods of low volumes, fixed costs can result in operating losses.

The Company derives a substantial portion of its revenue from several major customers with the largest customer contributing 18% of revenue and the ten largest comprising 75% of revenue. The loss of several major customers would have a negative impact on earnings.

The Company purchases from the United States certain raw materials and goods for resale in Canada and thus is vulnerable to exchange rate fluctuations. The Company sells certain products manufactured in Canada into the US. The Company does not presently use any financial instruments to hedge foreign currency fluctuations. The sale of Canadian-produced products into the US acts as a natural hedge against foreign currency fluctuations. A significant increase in the value of the US dollar in relation to the Canadian dollar would increase the Company's cost of product and revenues from export sales. The amount of export revenue does not offset the amount of raw materials and goods for resale purchased in US dollars. Therefore, some vulnerability to exchange rate fluctuations exists.

The Company relies on a limited number of suppliers for certain raw materials. While other sources of supply do exist, an unexpected disruption in supply could create operational problems and increased costs in the short term.

The following are some of the other factors that could affect the Company's financial performance:

- Increased competitor consolidations, market place competition, and competitive product and pricing pressures could impact the Company's earnings, market share and volume growth.
- Changes in laws and regulations, including changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations) and environmental laws in domestic or foreign jurisdictions. For example, the Company currently has significant tax losses available, and a change in legislation affecting these would negatively impact future results. Environmental laws affecting beverage containers could add costs to the Company and/or decrease consumer demand for the Company's products.
- Interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations, which are subject to various factors, including the impact of changes in worldwide and national economies, foreign currency movements, pricing fluctuations for the Company's products and changes in interest rates (see Item 11).
- The uncertainties of litigation, as the Company is party to certain lawsuits as detailed in Item 8.
- Changes in general economic and business conditions.

- The effectiveness and success of the Company's marketing programs, especially for newer brands such as *True Blue™*, *Infinity™*, *BrandX Originals™*, *TREK®* and *Soy2O™*.
- Changes in consumer tastes and preference and market demand for new and existing products.
- Adverse weather conditions, which could reduce demand for the Company's beverage products, sales of which are negatively affected by cooler temperatures.

Item 4. – Information on the Company

A. *History and development of the Company.*

1. The legal name of the Company is "Leading Brands, Inc."
2. The Company was incorporated on February 4, 1986 under the name "2060 Investments Ltd.". On May 21, 1986 the Company changed its name to "Camfrey Resources Ltd." On March 16, 1993, the Company changed its name to "Brio Industries Inc.", and on October 25, 1999, the Company changed its name from Brio Industries Inc. to Leading Brands, Inc.
3. The Company is incorporated under the laws of the province of British Columbia, Canada. The address and telephone number of its principal place of business is:

Suite 1800 – 1500 West Georgia Street
Vancouver BC
Canada V6G 2Z6
Tel: 604-685-5200

4. During the last half of 2003 and first quarter of 2004, the Company changed the method of going to market in the United States from focusing principally on third party beverage distributors in specific geographic areas, to a hybrid system that incorporates direct-to-store sales by the Company and a variety of alternative wholesalers.
5. Principal capital expenditures and divestitures

Sale of Quick.com ("Quick") assets and business

Effective January 1, 2001, the Company sold the business and certain intellectual property and capital assets of its online home delivery business to Northland Technologies Inc. ("NTI"), a Company related by way of a common director, in exchange for 12,000,000 redeemable preferred shares in NTI with a stated value of \$7.8 million. Prior to January 1, 2001, this business was in the development stage and had not commenced commercial operations.

The preferred shares include voting rights granting the Company a 12% share in net assets of NTI and are redeemable by NTI on or after March 23, 2001 for either the transfer of all of NTI's right, title and interest in the Quick assets and business, or cash of \$7.8 million. The shares are retractable at the option of the Company on or after January 1, 2004 for the redemption amount plus any unpaid dividends. In the event of retraction, NTI retains its right to pay the redemption amount in either of the manners described above.

At the end of fiscal year 2003, the Company decided to discontinue its support of the Quick Home Delivery Operations and, accordingly, recorded a \$6,523,880 write-down on its investment.

6. There are no significant capital expenditures or divestitures currently in progress.
7. There have been no public takeover offers by third parties in respect of the Company's shares or by the Company in respect of other companies' shares during the last and current financial year.

B. *Business overview.*

1. The Company and its subsidiaries are engaged in beverage bottling, distribution, sales, merchandising, brand development, brand licensing and brand management of beverage and food products, throughout most of North America. Originally a "direct to store" distributor of soft drinks in western Canada, the Company evolved into a fully integrated bottling and distribution operation.

In the fiscal year ended February 28, 2005, Leading Brands of Canada, Inc. was the principal operating subsidiary engaged in the Company's food and beverage business, and Leading Brands USA, Inc. was the principal sales subsidiary in the United States.

2. Beverage Bottling

The beverage bottling operations of the Company comprise the largest juice and new age beverage packaging entity in Western Canada. The Company operates two plants: a 50,000 square foot plant in Edmonton, Alberta and a 100,000 square foot plant in Richmond, British Columbia. The Company bottles juices and new age beverages for co-pack customers, private label customers, and the Company's licensed and branded products. The Company's plants are primarily "hot fill" plants designed to allow for extended shelf life of products without the use of preservatives. In a "hot fill" process, the liquid is heated to a high temperature prior to filling. The bottle is filled and capped while the liquid remains at the high temperature and then the filled bottle is sent through a cooling tunnel. The cooling causes a pressure seal which preserves the product without the need to add any artificial preservatives. In 2003 the Company added a carbonated beverage line to its Richmond, British Columbia plant. That line was installed at the principal cost of the major customer utilizing that line.

The Company provides beverage packaging (“co-pack”) services to major branded beverage companies such as Coca Cola Enterprises Ltd., Quaker Tropicana Gatorade Canada and the Mark Anthony Group. These “co-pack” customers own their brands, and handle the distribution of the product to market. The Company simply “co-packs” or makes the product at the customers’ request. The Company charges a “co-pack fee” that equates to the cost of the packaging service provided and also bills for any materials not supplied by the customer. Certain co-pack customers are charged the “co-pack fee” only because they supply all raw materials to make the product. Other co-pack customers want the Company to provide some or all of the raw materials. The selling price to these customers is the cost of the raw materials supplied by the Company plus the “co-pack fee”. As a result, when a “co-pack” customer requests a change from a billing method in which the customer supplies the raw materials to a billing method where they request the Company to supply the raw materials, it can cause a significant change in revenue, with little or no change in gross profit, since the cost of sales changes by approximately the same dollar amount. In the 2002 fiscal year, the Company became involved in purchasing more materials and ingredients for two of its co-pack customers, thereby increasing the Company’s revenues and cost of sales.

The Company’s private label juice program serves many of the primary major grocery chain stores in Canada. This business involves designing, developing and formulating juices and new age beverages, principally for chain stores, to be sold under their private or controlled label programs. Packaging materials and ingredients are purchased and the finished products are sold to customers.

The Company’s plants are designed and equipped to handle various types of containers. The Edmonton plant has three lines: a glass line, a polyethylene terephthalate (“PET”) line and a foil pouch line. The Richmond plant has two lines: a line that produces a combination of glass and PET, and a line to run carbonated beverages with a post-fill tunnel pasteurization capability. The Company’s goal for beverage operations during the coming year is to expand the volume of cases packaged through co-pack operations, to expand the distribution of the Company’s own branded product lines, supplement those lines with products licensed from third parties and to expand sales of its own branded product lines into the United States.

Sales and Distribution

The Company’s sales and distribution system comprise the largest independent, fully integrated beverage distributor in Canada. The sales and distribution system has two regional warehouse distribution centers located in Richmond, British Columbia and Edmonton, Alberta. In addition, there are third party distribution centers in Montreal, Toronto and Calgary. The sales and distribution system distributes a variety of juices, new age beverages, waters, food and confectionary items to retail, wholesale and distribution outlets.

The Company also owns and operates a spring water site at Mt. Woodside, Agassiz, British Columbia, approximately 50 miles east of Vancouver. The Company sells bulk tankered water to bottlers in the greater Vancouver area. The bulk tanker loading facility has tank storage capacity of 10,000 gallons. The Company also provides water for a public spring site free of charge at the base of the property.

The Company differentiates itself in the marketplace with its customer service. By selecting the right mix of products and flavours and determining the merchandising strategy for those items, the Company has been successful in increasing the turns of its customers' beverage inventory. The Company also distributes a wide variety of snack food, grocery and confectionary products

The Company has a sales and marketing team that covers most of Canada. As a market of approximately 30,000,000 people, covering more than 2,000,000 square miles, it is not always cost effective for the Company's delivery system to carry its products to its customers on its own trucks. At the same time, it is imperative that the Company maintains contact with those customers and provides sales and merchandising services necessary to ensure proper presentation of the Company's brands on store shelves and to assure appropriate ordering and pull-through of the Company's products.

The sales professionals in Canada cover all aspects of the retail trade including chain grocery and drug stores, mass merchandise centers, food service outlets and convenience stores. The salespeople and merchandisers are linked by computer to the Company's central databases, allowing for complete automation of the ordering functions.

The Company also employs sales professionals in the United States. These salespeople are primarily focused on servicing third party regional distributors, major wholesale customers and retail chains contracted to the Company.

The Company's marketing department is constantly developing and implementing innovative marketing programs for all the brands represented. From sales booklets and point of sale materials to contests, sampling events, interactive websites and in-store demonstrations, the Company is always working to bring its brands to the top of its consumer's mind. The Company's goal is to promote and market all the brands it represents in a fun, positive and informed environment.

Brand Licensing and Brand Development

The Company has increased its focus to licensed brands and the development of its own brands. Several of the Company's branded products, *True Blue™*, *Infinity™*, *BrandX Originals™*, *TREK®*, *SoyzO™*, *Pez® 100% Juice™*, *Caesar's Bloody Caesar®*, and *Caesar's Caesar Cocktail®*, are packaged and managed by the Company. The Company's licensed brands include *Fiji Natural Artesian Water®*, *Hansen's® Beverages*, and *Stewart's® Fountain Classics*.

Other Business Overview Information

Substantially all of the Company's operations, assets and employees are located in Canada. In 2005 export sales were less than 10% of the Company's revenues.

3. Demand for the Company's beverage products is seasonal, with the warmer months having more demand than the cooler months.
4. Sourcing and pricing of raw materials used in co-packing are generally the responsibility of the Company's co-pack customers. For the Company's branded and private label products, this risk remains with the Company.

Raw materials used in the beverage packaging business consist primarily of sugar, bottles, closures, flavoring and cardboard. The Company generally uses filtered municipal water but also has its own spring site in British Columbia as a source of spring water.

- Sugar is commodity priced and is generally purchased under a one year contract and there are several suppliers in both Canada and the United States.
 - Bottles are generally purchased in the US, but there is a PET bottle supplier in Canada. PET pricing is affected by changing oil prices. Clear glass supply can be limited due to market demand for this item. Pricing tends to remain stable during the year.
 - Closures and flavorings are generally purchased in the US, but Canadian suppliers are becoming available.
 - Cardboard is widely available and while pricing fluctuates from year to year, it is generally stable in the short term.
5. The majority of the Company's sales are handled directly by the Company's own sales force. The Company uses a few brokers to assist with sales to retailers in some markets. And in other markets, principally in the United States, goes to market with some products through third party distributors.
 6. No material portion of the Company's business is dependent on a single or connected group of patents, licenses, industrial, commercial or financial contracts or new manufacturing processes.
 7. The Company makes no statements concerning its competitive position.
 8. The Company is subject to regulations of the Canadian Food Inspection Agency, Health Canada and Natural Health Product Directorate, as well as the U.S. Food and Drug Administration with regards to ingredients and labeling of the Company's products.

The Company is also subject to compliance with the Canada Customs and Revenue Agency and the United States Department of Homeland Security, Customs and Border

Protection, for border security and customs functions related to the cross-border movement of raw materials and finished goods.

C. *Organizational structure.*

Following is a list of the Company's main subsidiaries as at February 28, 2005:

- Leading Brands of Canada, Inc. (LBCI)
 - incorporated provincially in Alberta, Canada;
 - 100% owned by Leading Brands, Inc.;
 - LBCI is the Company's principal operating subsidiary in Canada.
- Leading Brands USA, Inc. (LBUI)
 - incorporated in Washington;
 - 100% owned by Leading Brands, Inc.;
 - LBUI is the Company's principal operating subsidiary in the United States.
- Kert Technologies, Inc. (formerly The TREK Company, Inc.)
 - incorporated federally in Canada;
 - 90.5% owned by Leading Brands, Inc.;
 - licenses and owns the Company's *TREK* ® trademarks and other intellectual property.
- LBI Brands, Inc.
 - incorporated provincially in British Columbia, Canada;
 - 100% owned by Leading Brands, Inc.;
 - owns certain of the Company's proprietary brands, trademarks and other intellectual property.
- Quick, Inc.
 - incorporated in Florida, USA;
 - 97% owned by Leading Brands, Inc.;
 - owns certain trademarks and rights.
- Brio Snack Distributors Inc.
 - incorporated provincially in British Columbia, Canada;
 - 100% owned by Leading Brands of Canada, Inc.;
 - owns certain trademarks and rights.
- Leading Brands of America, Inc. (LBAI)
 - incorporated in Delaware;
 - 100% owned by Leading Brands, Inc. and Leading Brands of Canada, Inc.;
 - LBAI is presently inactive

D. *Property, plants and equipment.*

Beverage Operations

Leading Brands operates two beverage plants: one in Edmonton, Alberta and one in Richmond, British Columbia. The two plants have a total 144 oz. equivalent case capacity of approximately 25,000,000 cases per annum.

Leading Brands owns a 50,000 square foot plant in Edmonton, Alberta, located at 4104 -99 Street. The plant contains three lines: glass, P.E.T. and pouch line for a combined 144 oz. equivalent case capacity of 10,000,000 cases per annum.

The Richmond, B.C. plant, is a 100,000 square foot leased facility, with a high speed combination hot fill glass and PET plastic line, and a carbonated line. This plant has an annual case volume capacity of approximately 15,000,000 144 oz. equivalent cases.

Leading Brands also owns and operates a spring site at Mt. Woodside, Agassiz, British Columbia, approximately 50 miles east of Vancouver. The Company sells bulk tankered water to bottlers in the greater Vancouver area.

Sales and Distribution

The Company has a sales office in the following location:

#250 – 1050 Seminaire nord, Saint-Jean-sur-Richelieu, Quebec. The space occupies 1,469 square feet and is leased month-to-month for \$1,289 US per month.

The following location serves the role of regional warehouse or distribution centre.

3870 – 98 Street, Edmonton, Alberta. The space occupies 61,872 square feet and is leased for \$16,720 US per month until August 31, 2007.

The Company also utilizes the following third party distribution centres:

- (1) 104 Walker Drive, Brampton Ontario
- (2) 2300 Chemin Monterey, Chomedey, Laval Quebec
- (3) 7151 44 Street SE, Calgary Alberta

The Company's head office is located at Suite 1800 – 1500 West Georgia Street, Vancouver BC. The space occupies 6,036 square feet and is being leased for \$7,748 to \$8,563 US per month until January 2008.

Item 5. – Operating and Financial Review

A. *Operating results*

Introduction

The Company is involved in two main business functions, the operation of two bottling plants and the distribution of the Company's brands and other licensed brands. The plants provide bottling services to large co-pack customers and national grocery chains for their products and also produce the Company's branded products. The Company's distribution division markets and sells the Company's branded beverage products and other food and beverage products licensed to the Company, through the Integrated Distribution System (IDS) of distributors, wholesalers, grocery chains and direct delivery to retail stores.

The Company's goal is to increase production volume and sales by securing additional volume from its existing co-pack customers, securing new production contracts from customers requiring bottling services, and increasing distribution of the Company's branded beverage products and other food and beverage products licensed to the Company through distribution contracts. The Company's major focus is to accomplish this while incurring minimal increases in selling, general and administrative costs to create increased profit for the Company.

Financial Year Ended February 28, 2005

Sales

Revenue	Year ended February 28, 2005	Year ended February 29, 2004	Change
Bottling Plant	\$17,294,507	\$18,221,670	(\$ 927,163)
Distribution and Other	\$17,121,342	\$23,551,905	(\$6,430,563)
Total Gross Revenue	\$34,415,849	\$41,773,575	(\$7,357,726)
Discounts, allowances and Rebates	(\$ 849,645)	(\$ 976,649)	\$ 127,004
Net Revenue	\$33,566,204	\$40,796,926	(\$7,230,722)

Gross sales for the year ended February 28, 2005 were \$34,415,849 compared to \$41,773,575 for the previous year, representing a decrease of 17.6 %. The decrease in plant revenue is a result of a decrease in revenue from sales to customers where the Company supplies the raw materials of \$4,442,360 offset by an increase in revenue from sales to customers where the customer supplies the raw materials of \$3,515,197, which includes a reduction in Ocean Spray production. The decrease in distribution and other revenue consists of a decrease in revenue from food products of \$1,677,750, mainly due to the discontinuation of the Little Debbie's snack food line, a decrease in revenue of the Company's own brands of \$3,017,051 mainly due to the refocus of the sales force in the US, and a net decrease in sales of licensed brands and other revenue of \$1,735,762, representing a decrease in revenue from the loss of the Mad Croc distribution contract in the amount of \$3,147,008 offset by an increase in sales of other licensed brands and other revenue of

\$1,411,246. Sales discounts, allowances and rebates for the year ended February 28, 2005 were \$849,645 compared to \$976,649 for the previous year, representing a decrease of 13%. The decrease of \$127,004 represents a decrease in sales discounts, allowances and rebates related to the sales of branded products in the amount of \$300,856 offset by an increase in volume rebates related to the bottling plant in the amount of \$173,852.

Cost of Sales and Margin

Cost of Sales	Year ended February 28, 2005	Year ended February 29, 2004	Change
Bottling Plant	\$10,910,199	\$14,031,244	(\$3,121,045)
Distribution and Other	\$12,633,149	\$17,372,145	(\$4,738,996)
Total	\$23,543,348	\$31,403,389	(\$7,860,041)

Cost of sales for the year ended February 28, 2005 were \$23,543,348 compared to \$31,403,389 for the previous year, representing a decrease of 25%. The decrease in plant cost of sales of \$3,121,045 is a result of a decrease in cost of sales for customers where the Company supplies the raw materials of \$4,321,060 offset by an increase in cost of sales for customers where the customer supplies the raw materials of \$1,200,015. The decrease in distribution and other cost of sales of \$4,738,996 consists of a decrease from foods products of \$1,731,211, mainly due to the discontinuation of the Little Debbie's snack food line, a decrease from the Company's own brands of \$1,736,227 mainly due to the refocus of the sales force in the US, and a net decrease in licensed brands and other products of \$1,271,558, representing a decrease in Mad Croc distribution in the amount of \$1,816,692 offset by an increase from other licensed brands and other products of \$545,134.

Margin	Year ended February 28, 2005	Year ended February 29, 2004	Change
Bottling Plant	\$ 6,175,626	\$ 4,155,596	\$2,020,030
Distribution and Other	\$ 3,847,230	\$ 5,237,941	(\$1,390,711)
Total	\$10,022,856	\$ 9,393,537	\$ 629,319
Margin percentage	29.9%	23.0%	6.9%

Margin for the year ended February 28, 2005 was \$10,022,856 compared to \$9,393,537 for the previous year, representing a increase of 6.7%. The increase in plant margin of \$2,020,030 is a result of a decrease in margin from customers where the Company supplies the raw materials of \$121,300 offset by an increase in margin from customers where the customer supplies the raw materials of \$2,141,330. The decrease in distribution and other margin of \$1,390,711 consists of an increase from foods products of \$137,035 mainly due to increased profitability from remaining food products, a decrease from the Company's own brands of \$1,154,083 mainly due to the refocus of the sales force in the US, and a net decrease in licensed brands and other products of \$373,663, representing a decrease in Mad Croc distribution in the amount of \$1,204,470 offset by an increase from other licensed brands and other products of \$830,807.

Selling, General and Administration Expenses

These expenses decreased \$1,291,653 from \$9,867,894 to \$8,576,241, or 13.1%. Selling, general and administrative expenses related to the US decreased \$1,583,453 due to the refocus of the US sales division, marketing expenses decreased \$409,418 due to lower sales of the Company's own brands, offset by an increase in general and administrative expenses of \$701,218 due to increased bottling plant volume.

Other Expenses and Recovery

Depreciation remained consistent with the prior year at \$878,770 compared to \$896,406 in the 2004 fiscal year. Amortization of deferred costs decreased by \$216,107 from \$296,875 to \$80,768. Amortization decreased by \$258,573 relating to the impairment write down at the end of the 2004 fiscal year of certain deferred costs for start up and product development in the US market that was partially offset by an increase in amortization of \$42,466 for product development costs related to the Company's new brands. Interest decreased by \$24,460 from \$339,630 to \$315,170 due lower average borrowing levels. In the current year, the Company recorded income from the cancellation of certain distribution and bottling contracts in the amount of \$695,585. In the current fiscal year, the Company recorded a loss on sale of assets in the amount of \$43,590 due to the sale of retired production equipment, compared to a \$9,083 loss on sale of assets in the prior year. In the year ended February 28, 2005, the Company reduced the valuation allowance against future income tax assets in the amount of \$543,141 due to an increased certainty that the Company would be able to realize on the asset compared with \$805,383 in the prior year. In the fiscal year ended February 28, 2005, the Company recorded a reduction in the future income tax asset in the amount of \$745,090 corresponding to the operating profits in the Canadian operating entity. The Company paid cash income taxes in the fiscal year ended February 29, 2004 in the amount of \$3,943 and recovered income tax of \$3,690 in the year ended February 28, 2005.

Financial Year Ended February 29, 2004

Sales

Net sales for the year ended February 29, 2004 were \$40,796,926, compared to \$47,276,240 for the previous year, representing a decrease of 13.7 % or \$6.48 million. The decrease is attributed to the following:

- Decrease in sales due to the change in billing method for co-pack products, 32.5% (\$15.36 million)
- Increase in sales due to currency conversion, 10.9% (5.14 million)
- Increase in sales for branded products and other non co-pack revenue, 1.6% (0.75 million)
- Increase in sales for co-pack products, net of currency and billing method change, 6.3% (\$2.99 million)

Cost of Sales and Margin

Cost of sales decreased from \$37,924,637 to \$31,403,389 as a result of the net difference between the increase in cost of sales for branded products and the decrease in cost of sales due to the change in billing method for a large co-pack customer. Gross margin was \$9,393,537 in the current year compared to \$9,351,603 in the prior year.

Selling, General and Administration Expenses

These expenses increased \$890,092 from \$8,977,802 to \$9,867,894, or 9.9%. The additional costs are for wage and benefit costs, marketing expenses and other administrative costs incurred as a result of expanding the market for certain proprietary products into the US.

Other Expenses

Depreciation increased by \$140,937 from \$755,469 in the prior year to \$896,406. The increase was due to the effect of foreign currency translations of \$106,597 and increased depreciation due to the addition of capital assets in the production facilities of \$34,340. Amortization of deferred costs increased by \$25,052 from \$271,823 to \$296,875. The increase was due to the effect of foreign currency translation of \$38,354 net of a decrease in amortization of \$13,302 due to trademarks and other deferred costs reaching the end of their amortization periods in the fiscal year ended February 29, 2004. Interest decreased by \$74,366 from \$413,996 to \$339,630 due the reduction of interest accretion on convertible preferred shares in the amount of \$147,615, converted in the December 2002, net of the increase in interest due to the effect of foreign currency translation in the amount of \$37,586 and interest on higher average borrowing levels in the amount of \$35,663. For US GAAP, interest accretion of \$147,615 on convertible preferred shares in 2003 would not be recorded as explained in note 21 of the financial statements. In the year ended February 28, 2003, the Company decided to discontinue support of the Quick Home Operations delivery service and, accordingly, recorded a \$6,523,880 impairment write down on its investment.

B. *Liquidity and Capital Resources*

Financial Year Ended February 28, 2005

As at February 28, 2005 the company had negative working capital of \$899,375 compared to negative working capital of \$1,673,014 at the prior year end. This improvement in working capital resulted from cash generated through operating income. Bank indebtedness was \$2,512,897 compared to \$3,179,800 for the prior year which was reduced for the reasons mentioned above. There were no cash or cash equivalents as at February 28, 2005 or the previous year.

The agreement with respect to the bank indebtedness contains three restrictive covenants. They are a tangible net worth covenant, a current ratio covenant and a capital acquisition covenant. The Company was in compliance with all but the current ratio covenant at February 28, 2005. Subsequent to the year end, the lender renewed the Company's loans. The Company does not expect any additional covenant violations in the foreseeable future.

Notwithstanding the negative working capital as at February 28, 2005, the Company believes it will have sufficient working capital for the next 12 months since the Company has generated cash flow from operations at the beginning of the fiscal year ending February 28, 2006, significantly reducing the working capital deficit. The Company has no significant planned capital projects and believes that it currently has sufficient working capital to continue operations for the next twelve months and thereafter. Should any significant capital projects be planned, they will likely require further financing.

Net cash generated in operating activities for the 12 months ended February 28, 2005 was \$1,770,156 compared to \$853,640 utilized in the prior fiscal year. Cash in-flow from operations generated \$2,137,132 of cash compared to \$712,314 utilized in the prior year. In fiscal 2005 normal operating activities in the Canadian operations generated \$2,140,790, settlement from cancellation of distribution and bottling contracts generated \$695,585, normal operating activities in the US operations utilized \$639,482 and other marketing and holding entities utilized \$59,761. Working capital changes utilized \$366,976 due mainly to a decrease in trade accounts payable of \$2,857,118, mostly due to a \$2,370,237 decrease in Canadian operations due to cash generated from operations, the change in product mix in the co-pack products mentioned in the sales section, discontinuation of the Little Debbie's snack food line and reduced sales in the Company's own brands and a \$484,068 decrease in US operations due to the discontinuation of the Mad Croc product line and payment of legal fees relating to the contract settlement. The utilization from the reduction of accounts payable was offset by working capital generated by a decrease in prepaid expenses of \$9,773, a decrease in inventory of \$920,364; a \$914,222 decrease in the Canadian operating entities due to the same reasons mentioned above for the reduction of accounts payable and a \$6,142 decrease in the US operating entities and a decrease in accounts receivable of \$1,560,005; a \$1,527,480 decrease in the Canadian operating entity for the reasons mentioned above for accounts payable and inventory, a \$33,881 decrease in the US operating entities and a \$1,356 increase in the marketing and holding entities.

Net cash utilized in investing activities was \$290,679 compared to \$687,916 in the prior year. \$256,329 was expended on the purchase of capital assets compared to \$541,776 in the prior year. During fiscal year 2005, \$178,690 was expended on equipment for the bottling operations, \$29,908 was expended on vehicles and \$47,731 was expended on office equipment, software, and leasehold improvements. The sale of assets generated \$40,715 compared to \$63,730 in the prior year. Cash was utilized for expenditures on deferred costs in the amount of \$75,065 for new product development costs compared to \$209,870 in the prior year, of which \$77,699 for new product development costs and \$132,171 for start up costs related to the alcohol bottling contract.

Financing activities utilized \$1,650,381 compared to \$1,257,966 generated in the prior year. In the current year, the Company repaid long-term debt of \$1,128,209 compared to \$724,006 in the prior year, decreased bank indebtedness in the amount of \$890,440 compared to \$57,057 in the prior year as a result of increased cash flow from operations in the fiscal year ended February 28, 2005. This was offset by proceeds from additional long term debt of \$363,829 in the current year, which is consisted of a \$232,775 increase in the Company's term loan to fund capital equipment purchases and a \$131,054 increase in the mortgage on the Edmonton bottling facility. In the prior year, long term debt increased \$1,728,180 mostly due to an increase in the Company's term loan. In the current year, the issuance of common shares relating to the exercising of options and warrants generated \$4,439 compared to \$310,849 in the prior year.

The company has a demand revolving operating bank loan with a credit limit of \$3,648,156 with an interest rate of the Canadian prime rate of its lender plus 0.75 – 1.25% per annum. The Company also has a term loan from the bank in the amount of \$3,186,508 with an interest rate of the Canadian prime rate of its lender plus 1.0% per annum.

Other sources of financing include a mortgage, a promissory note payable and leases more fully described in note 9 of the financial statements.

The Company generally maintains bank indebtedness in Canadian funds and does not use financial instruments for hedging purposes. The Company does not have any material capital expenditure commitments.

Financial Year Ended February 29, 2004

As at February 29, 2004 the company had negative working capital of \$1,673,014. Bank indebtedness was \$3,179,800. There were no cash or cash equivalents as at February 29, 2004..

Net cash utilized in operating activities for the 12 months ended February 29, 2004 was \$853,640. Operating activities utilized \$712,314 of cash compared to \$196,774 generated in the prior year. Working capital changes utilized \$141,326 due to an increase in trade accounts receivable of \$1,063,691, which was partially offset by a decrease in prepaid expenses relating to the refund of deposits on production line equipment of \$547,131, a decrease in inventory of \$293,777 and an increase in accounts payable of \$81,457.

Net cash utilized in investing activities was \$687,916 compared to \$2,394,301 in the prior year. \$541,776 was expended on the purchase of capital assets for production line modification and expansion compared to \$944,931 in the prior year. During the fiscal year ended February 28, 2003, \$693,953 was advanced to support Quick Home Delivery operations that were discontinued at the end of that fiscal year. \$209,870 was expended on deferred costs compared to \$781,094 in the prior year. Expenditures were higher in 2003 due to new product development costs for *TREK*®, and *Pez*® 100% Juice™ and start up costs in the US.

Financing activities generated \$1,257,966 from an increase term loan of \$1,497,342, other long term debt of \$230,838 net of repayment of long term debt in the amount of \$724,006, proceeds from the issuance of common shares relating to the exercising of options and warrants for \$310,849 and a decrease in bank indebtedness of \$57,057.

Other sources of financing include a mortgage, a note payable and leases more fully described in note 9 of the financial statements.

C. *Research and development, patents and licenses, etc.*

The Company defers certain new product promotion, launch and development costs and amortizes them over 36 months commencing with the date of the launch of the related product. See note 6 of the financial statements. In the fiscal year ended February 29, 2004, the Company has taken a non-cash write down in the amount of \$632,579 due to impairment of deferred costs from previous periods, related to the refocus of the US market. Under US GAAP, SOP 98-5, Reporting on the Costs of Start-Up Activities, costs are expensed as incurred as explained in note 21 to the financial statements.

The Company does not have a formal research and development program. It develops products as and when it sees fit by working with existing staff and outside consultants, where appropriate.

Following are current and pending patents and intellectual property owned by the Company:

- patents for Quick website design and graphics
- patent on the *TREK* ® bottle
- proprietary *TREK* ® bottle and cap
- *TREK* ® formulations for Fuel, Burn and Recover
- *Pez*® 100% Juice ™ packaging
- a large inventory of formulations for a wide variety of juices and new age beverages.

D. *Trend Information.*

Sales to date for the first quarter of fiscal 2006 are trending about 13% lower than the comparable period in the prior year. Concurrently, cost of sales are trending lower causing gross margin to remain consistent with the same period in the prior year. This is primarily due to the reduced sales in co-pack products due to a reduction in sales of co-pack products in which the Company supplies the raw materials and an increase in sales of co-pack products in which the customer supplies the raw materials. The strength of the Canadian dollar compared to the US dollar over the prior year, has a positive effect on the Company's cost of goods sold in the Canadian market. This is partially offset by the increased costs of goods sold into the US market.

E. *Off-balance sheet arrangements.*

1. The Company is committed to operating leases for premises and equipment as disclosed in Note 13 of the financial statements. The payment obligations are as outlined in the note, and the amounts are expensed as operating expenses in the period the lease payments are made.
2. The Company has no off-balance sheet arrangements of this nature.

F. *Tabular disclosure of contractual obligations.*

<i>Contractual Obligations</i>	Payments due by period				
	<i>Total</i>	<i>less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>more than 5 years</i>
Long-term Debt Obligations	3,861,272	947,429	1,722,415	769,411	422,017
Capital (Finance) Lease Obligations	-	-	-	-	-
Operating Lease Obligations	2,798,531	1,287,461	1,448,067	63,003	-
Purchase Obligations	705,000	705,000	-	-	-
Other Long-term Liabilities Reflected on the Company's Balance Sheet under the					

GAAP of the primary financial statements	-	-	-	-	-
Interest – estimated ⁽¹⁾	1,395,000	303,000	472,000	320,000	300,000
Total	8,759,803	3,242,890	3,642,482	1,152,414	722,017

1) Since the interest rates on the majority of the Company's debt is at floating interest rates based on prime, the interest amount above is estimated.

Critical Accounting Policies

The Company's annual financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Differences from United States accounting principles are disclosed in note 21 in the notes to the annual financial statements in Item 17 of this Annual Report on Form 20-F. Some accounting policies have a significant impact on the amount reported in these financial statements. A summary of those significant accounting policies can be found in the Summary of Significant Accounting Policies in the annual financial statements. Note that the preparation of this Annual Report on Form 20-F requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The Company believes, as explained below, that the most critical accounting policies cover the following areas: goodwill, revenue recognition and stock based compensation.

Goodwill

Goodwill is recorded at cost and, effective January 1, 2002, it is no longer amortized. Goodwill is tested for impairment annually or if an event occurs that will more likely than not reduce the fair value of the reporting unit below its carrying value. An impairment loss will only be recognized if the carrying amount is not recoverable when compared to the undiscounted future cash flow. As the Company has reported net income for fiscal 2005 and expects its operations to continue to be profitable in the future, no impairment loss has been recognized. The significant assumptions are as follows:

- Expected cash flows from operations of the related entity, over the next five fiscal years.
- Forecasted operating results based on current economic conditions and expected future events.
- Seasonality of the business is built into the discounted cash flow model, therefore normal fluctuation in sales will not significantly affect the analysis.

Revenue Recognition

Revenue on sales of products is recognized when the products are delivered and title transfers to customers. Revenues from the provision of manufacturing, bottling or other services are recognized when the services are performed and collection of related receivables is reasonably assured. Certain figures are reclassified in prior periods relating to sales discounts, allowances and rebates to conform with Canadian GAAP changes on revenue recognition.

Stock-based Compensation

Effective January 1, 2004, the Company has retroactively adopted, without restatement, the new recommendations of CICA Handbook Section 3870, “Stock-based compensation and other stock-based payments”, which now requires companies to adopt the fair value based method for all stock-based awards granted on or after March 1, 2002. Previously the Company was only required to disclose the pro forma effect of stock options issued to employees and directors in the notes to the financial statements. The effect of this change in accounting policy was to increase the accumulated deficit and contributed surplus as of March 1, 2004 by \$836,350.

Under US GAAP, the Company continues to apply Accounting Principles Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employees”, and related FASB Interpretation No. 44 (“FIN 44”) in accounting for all stock options granted to employees and directors. Under APB 25, compensation expense is generally recognized for stock options granted with exercise prices below the market price of the underlying common shares on the date of grant. Stock options that have been modified to reduce the exercise price are accounted for as variable. Stock options that have been modified to increase life are remeasured as if the awards were newly granted.

Compensation costs are charged to the Consolidated Statements of Income and Deficit or capitalized to deferred costs, depending on the nature of the award.

As a result of the change in accounting policy under Canadian GAAP, there is a Canadian – US GAAP difference as described in more detail in Note 21 of the consolidated financial statements.

New Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment.” SFAS No. 123(R) would require the Company to measure all employee stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. In addition, SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. For public entities that file as a foreign private issuer, SFAS No. 123(R) is effective for the first fiscal year beginning after June 15, 2005.

In December 2004, FASB issued SFAS No. 153 to amend Opinion 29 by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange is defined to have commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange.

The Company is assessing the effect on the consolidated financial statements as a result of the implementation of these new standards.

G. *Forward Looking Statements.*

This report includes “forward-looking information” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements which are not historical facts, are forward-looking statements. The Company, through its management, makes forward-looking public statements concerning its expected future operations, performance and other developments. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions are also intended to identify forward-looking statements.

Such forward-looking statements are necessarily estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. It is impossible to identify all such factors. Factors which could cause actual results to differ materially from those estimated by the Company include, but are not limited to, general economic conditions, weather conditions, changing beverage consumption trends, pricing, availability of raw materials, economic uncertainties (including currency exchange rates), government regulation, managing and maintaining growth, the effect of adverse publicity, litigation, competition and other factors which may be identified from time to time in the Company's public announcements.

Reliance should not be placed on these forward-looking statements, which reflect the views of our directors and management as at the date of this Annual Report only. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after publication.

Item 6. – Directors, Senior Management and Employees

A. *Directors and senior management.*

The following is a list of the current directors and senior officers of the Company, their municipalities of residence, their current positions with the Company, areas of experience, and principal business activities performed outside the Company:

Name and Municipality of Residence	Principal Occupation and Areas of Experience
Ralph D. McRae West Vancouver, BC	Mr. McRae is a director and the Chairman, President and Chief Executive Officer of the Company and has been with Leading Brands, Inc. since March 1996. He is also a director and the Chairman, CEO and Secretary/Treasurer of Leading Brands of Canada, Inc., and Kert Technologies, Inc. Mr. McRae is a director and the Chairman and CEO of McRae Management Ltd., a waste management and water company based in Coquitlam, BC.

Name and Municipality of Residence	Principal Occupation and Areas of Experience
	He is a member of the Bar of both British Columbia and Alberta, and holds a Bachelor of Commerce (1980) and LLB (1981) from the University of British Columbia
R. Thomas Gaglardi Vancouver, BC	Mr. Gaglardi has been a director of Leading Brands, Inc. since October 1998 and Secretary of the Company since June 1999. He is also the President of Northland Properties Corporation, a hotel, real estate and restaurant company, and Chairman and CEO of Sandman Hotels, Inns & Suites and Moxie's Restaurants, LP.
Peter Buckley West Vancouver, BC	Mr. Buckley has been a director of Leading Brands, Inc. since August 1997. He is also the President of Old Spaghetti Factory Canada Ltd.
Iain J. Harris Vancouver, BC	Mr. Harris was a director of Leading Brands, Inc. from May 1996 to December 2003, and from June 2004 until the present time. He is also the Chairman and Chief Executive Officer of Summit Holdings Ltd.
Jonathan Merriman San Francisco, CA	Mr. Merriman has been a director of Leading Brands, Inc. since January 1999. He is also the Chairman and CEO of Merriman Curhan Ford & Co.
Douglas Carlson Aspen, CO	Mr. Carlson has been a director of Leading Brands, Inc. since June 1999. He is also the Chief Executive Officer of FIJI Water Holdings, LLC. Mr. Carlson is a Certified Public Accountant.
Donna Higgins, CGA Port Coquitlam, BC	Ms. Higgins is the Chief Financial Officer of Leading Brands, Inc., Leading Brands of Canada, Inc., and Leading Brands USA, Inc. Prior to joining Leading Brands in 1999, Ms. Higgins held accounting and finance positions with both a large Pepsi bottler and regional beverage distributor.

There are no arrangements or understandings pursuant to which any of the above was selected as a director or executive officer. There are no family relationships between any of the persons named above.

B. *Compensation.*

In fiscal 1996, the Company implemented a management incentive compensation system. Under that system, the executive and divisional management of the Company exchanged part of their salary for stock options and a bonus program, payable in a combination of cash and the Company shares. Entitlement to the bonus is tied directly to the Company's profitability in relation to budget. The Company's sales and delivery personnel are paid in part by commission. The

Company's plant workers are also paid in part by an incentive tied to their productivity. The Company has no other bonus or profit sharing plans.

Compensation of Directors

Directors receive \$1,500 CDN per quarter (pro rated for those serving less than a full quarter) and \$500 CDN for each directors' meeting and committee meeting attended.

Directors are also compensated for their services in their capacity as directors by the granting from time to time of incentive stock options. During the most recently completed financial year, there were 225,000 stock options expired and new options were granted to these Directors.

BBi Holdings Inc. ("BBi"), which is controlled by Ralph McRae, receives \$5,431 USD per month for consulting services provided by Mr. McRae and another director of BBi.

Compensation of Executive Officers

The following table is a summary of compensation paid to the CEO, the CFO, and the 2 most highly compensated Executive Officers of the Company and its subsidiaries.

Name and Position	Fiscal Year Ending	Annual Compensation			Stock Options
		Salary (US\$)	Bonus (US\$)	Other Annual Compensation (US\$)	Securities Under Options Granted during the fiscal year (#)
Ralph McRae, Chairman, President and CEO	2005	nil	nil	372,439 ⁽¹⁾ 65,172	nil
Donna Higgins, CFO	2005	106,688	nil	nil	30,000 ⁽²⁾
Dave Read, President of LBI Brands, Inc.	2005	nil	nil	238,071 ⁽³⁾	nil
Patrick Wilson, VP of Sales and President of Leading Brands USA, Inc.	2005	146,195	nil	nil	112,500 ⁽⁴⁾

- (1) McRae Ventures, Inc., a company with a director in common with the Company, receives \$372,439 for consulting services provided by Mr. McRae. BBI Holdings Inc., a company with a director in common with the Company, receives \$5,431 per month for consulting services provided by Mr. McRae and another director of BBI Holdings Inc.
- (2) 30,000 previously granted options @ US\$1.00 expired Jan.25, 2005 and 30,000 options @ US\$1.04 were granted July 15, 2004 -
- (3) VE Services, a company owned by Mr. Read, received \$238,071 for consulting services provided by Mr. Read.
- (4) 92,500 previously granted options @ US\$1.00 expired Nov. 3, 2004 and 92,500 options @ \$US1.04 were granted July 15, 2004, expiring July 15, 2014 and 20,000 options @ US\$1.10 were granted Mar. 1, 2004, expiring March 1, 2009.

No amounts have been set aside or accrued by the Company during its last fiscal year to provide pension, retirement or similar benefits for directors or officers of the Company.

C. *Board practices.*

1. The Company's board of directors is currently comprised of six directors. These are divided into three classes designated as Class I, Class II and Class III, to provide for a rotation of three year terms of office. Any director whose term has expired is eligible for re-election.

The terms of office of Douglas Carlson and Iain Harris, the directors in Class II, will expire at the conclusion of the 2005 annual general meeting to be held on June 28, 2005, while the terms of office of the directors in Classes III and I expire at the 2006 and 2007 annual general meetings, respectively.

The following table lists the current terms of office for the directors and the period during which the directors have served:

<u>Name</u>	<u>Class</u>	<u>Term of Office</u>	<u>Served Since</u>
Douglas Carlson	II	Aug/02 to Aug/05	June 1999
Iain J. Harris	II	Aug/02 to Aug/05	May 1996
Peter Buckley	III	Aug/03 to Aug/06	August 1997
R. Thomas Gaglardi	III	Aug/03 to Aug/06	October 1998
Ralph D. McRae	I	July/04 to July/07	March 1996
Jonathan Merriman	I	July/04 to July/07	January 1999

2. There are no directors' service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.
3. The members of the Company's audit committee are:
 - Peter Buckley
 - Douglas Carlson
 - Iain Harris

The function of the audit committee is one of review and oversight. The committee reports to the Board from time to time with respect to its activities and its recommendations and provides background and supporting information as may be necessary for the Board to make an informed decision.

The members of the Company's compensation committee are:

- Douglas Carlson
- Jonathan Merriman

The Committee is responsible for, among other things, reviewing and determining the annual salary, bonus/profit sharing and other compensation levels of the executive officers of the Company. Compensation matters may also be reviewed and approved by the entire board of directors.

As of April 1, 2005 the executive officers of Leading Brands, Inc. are:

Ralph D. McRae	Chairman, President and Chief Executive Officer
Donna Higgins	Chief Financial Officer
R. Thomas Gaglardi	Secretary

D. *Employees.*

Following are the number of employees of the Company for the past 3 financial years:

	February 28, 2005	February 29, 2004	February 28, 2003
Canada	186	180	181
United States	2	2	13

E. *Share ownership.*

1. Options to purchase common shares from the Company or subsidiaries of the Company are granted from time to time to directors, officers and employees of the Company on terms and conditions acceptable to the board of directors, and subject to shareholder approval.

As of February 28, 2005, there were 2,975,519 issued and outstanding options, with a weighted average exercise price of \$1.07.

As of May 2, 2005 there were 2,855,519 issued and outstanding options, with a weighted average exercise price of \$1.07. Of the total stock options granted, 2,019,143 have vested and are available for exercise as at May 2, 2005.

The following table provides share ownership information with respect to the directors and officers listed in subsection 6.B above.

Name	Common Shares Held ⁽¹⁾ (#)	# of Common Shares under Options Granted	Date of Grant	Exercise Price	Expiration Date
Ralph McRae	449,160 (2.99%)	500,000 300,000 200,000	Mar. 1, 2000 Aug. 29, 2000 Aug. 29, 2000	1.00 1.00 1.00	Mar. 1, 2010 Sept. 1, 2005 Sept. 1, 2005
Donna Higgins	nil	20,000 30,000 50,000 50,000	Jun. 8, 1999 July 15, 2004 Aug. 14, 2000 Aug. 26, 2003	1.00 1.04 1.00 1.29	Apr. 30, 2009 July 15, 2014 Aug. 14, 2005 Aug. 26, 2008
Dave Read	1,000	50,000 50,000 100,000 50,000	July 2, 1999 Aug. 27, 1999 Jan. 22, 2001 Aug. 26, 2003	1.00 1.00 1.00 1.29	July 2, 2009 Aug. 27, 2009 Jan. 22, 2006 Aug. 26, 2008
Patrick Wilson	11,658	20,000 92,500	Mar. 1, 2004 July 15, 2004	1.10 1.04	Mar. 1, 2009 July 15, 2014

(1) The information as to number of shares beneficially owned (directly or indirectly or over which control or direction is exercised) is not within the knowledge of the management of the Company and has been furnished by the respective director or officer.

2. There are no other arrangements for involving the employees in the capital of the Company.

Item 7. – Major Shareholders and Related Party Transactions

A. *Major shareholders.*

As at May 2, 2005, the Company had 15,045,069 common shares without par value issued and outstanding.

1. Following are the shareholders that are the beneficial owners of 5% or more of the Company's voting securities, as of May 2, 2005:

(a)

Name of shareholder	Number of shares	Percentage of outstanding shares
Cede & Co. ⁽¹⁾	8,939,135	59.42%
CDS & Co. ⁽²⁾	4,301,014	28.59%
Northland Properties ⁽³⁾	2,020,626	13.43%
Gilvest LP ⁽⁴⁾	864,000	5.74%

⁽¹⁾ Cede & Co. is an American depository, holding shares on behalf of beneficial owners.

⁽²⁾ CDS & Co. is a Canadian depository, holding shares on behalf of beneficial owners.

⁽³⁾ Northland Properties is related to R. Thomas Gaglardi, a director of Leading Brands, Inc.

⁽⁴⁾ Gilvest LP is related to Douglas Carlson, a director of Leading Brands, Inc.

- (b) In December 2002, Northland Properties Corporation ("NPC") converted 2,000,000 Class E preferred shares to 788,626 common shares at the rate of \$1.75 USD per share. This transaction increased NPC's percentage ownership of the Company's outstanding shares from 8.66% as at February 28, 2002 to 13.52% at February 28, 2003.

There has been no other significant change in the percentage ownership held by any major shareholders during the past three years.

- (c) The Company's major shareholders do not have different voting rights than other shareholders.
2. The Company's register of 225 members showed that 10,157,400 of the Company's common shares or 67.5% were held by 183 registered shareholders residing in the United States.
 3. To the best of the Company's knowledge, the Company is not owned or controlled, directly or indirectly, by another corporation or by any foreign government.
 4. To the best of the Company's knowledge, there are no arrangements the operation of which at a subsequent date may result in a change in control of the Company. A substantial number of common shares of the Company are held by depositories, brokerage firms and financial institutions in "street form".

B. *Related party transactions.*

1. The Company has not at any time during the period since the beginning of the last fiscal year to May 6, 2005 been a party to any material transactions in which any director or officer of the Company, or any relative or spouse, or any relative of any such spouse, has any direct or indirect material interest except as follows:
 - a) BBI Holdings Inc., a Company with a director in common with the Company, receives \$5,431 per month for consulting services provided by Mr. McRae and another director of BBI Holdings Inc.;

- b) Effective January 1, 2001, the Company sold the business and certain intellectual property and capital assets of its online home shopping business to Northland Technologies Inc. ("NTI"), a company related by way of a common director, in exchange for 12,000,000 redeemable preferred shares in NTI with a stated value of \$7.8 million. Prior to January 1, 2001, this business was in the development stage and had not commenced commercial operations.

The Company also entered into an agreement to provide certain management and administrative services to NTI until February 28, 2003 in exchange for a management fee calculated as costs incurred plus a 10% share of specified net profit.

During the fiscal year 2003, the Company advanced \$693,953 to support its investment in NTI related to the Quick Home Operations delivery service.

At the end of the fiscal year 2003, the Company decided to discontinue its support of the Quick Home Operations delivery service and, accordingly, recorded a write down of \$6,523,880 on this investment. See note 1(a) of the annual financial statements for further details.

- c) Fiji Water, a company with a director in common with the Company, supplied products for resale in the amount of \$250,126 during the year ended February 28, 2005.
2. There are no outstanding loans or guarantees made by the Company or any of its subsidiaries to or for the benefit of any of the persons listed above.

Item 8. – Financial Information

A. *Consolidated Statements and Other Financial Information.*

The following financial statements for the year ended February 28, 2005 are included in this report.:

- (a) Balance sheets
- (b) Statement of Income and Deficit
- (c) Statements of Cash Flows
- (d) Summary of Significant Accounting Policies
- (e) Notes to the Financial Statements

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Legal Proceedings

In January 2000, a former supplier of the Company commenced a lawsuit against the Company for unpaid amounts totaling approximately Cdn\$991,000 in respect of beverage product allegedly purchased by the Company. The Company commenced a counter claim against the former supplier totaling approximately Cdn\$7,478,000 for losses incurred as a result of the former supplier's alleged breach of contract. This matter has been settled at no cost to the Company, pending final exchange of settlement documents.

An action from 2003 involving the former President of LBAI, a supplier, 3 licensors and their principal was settled in July 2004. A payment was made to the Company by the former President of LBAI, and no payment was made by the Company. The 3 license agreements were terminated, and certain suppliers of those products forgave substantial amounts.

The Company is subject to other legal proceedings and claims that arise in the ordinary course of its business, none of which are expected to have significant effects on the Company's financial position or profitability.

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Dividend Distributions

The Company will consider dividend distributions when it determines that it cannot realize better returns to investors by investing internally.

B. *Significant Changes since the date of the annual financial statements.*

None

Item 9. – The Offer and Listing.

Note: For an Annual Report, only the information called for by Items 9.A.4 and 9.C is required

A. *Offer and listing details.*

4. Following is information regarding the price history of the stock on the Nasdaq SmallCap Market, in United States dollars:

(a) for the five most recent full financial years:

Period	High \$	Low \$
March 1, 2004 to Feb. 28, 2005	1.75	0.78
March 1, 2003 to Feb. 29, 2004	2.49	0.91
March 1, 2002 to Feb. 28, 2003	4.14	1.52
March 1, 2001 to Feb. 28, 2002	1.99	0.43
March 1, 2000 to Feb. 28, 2001	4.68	0.75

(b) for each full financial quarter of the two most recent full financial years:

Period	High \$	Low \$
4 th Quarter of Fiscal 2004 Dec. 1, 2004 – Feb. 28, 2005	1.06	0.80
3 rd Quarter of Fiscal 2004 Sept. 1, 2004 – Nov. 30, 2004	1.25	0.78
2 nd Quarter of Fiscal 2004 June 1, 2004 – Aug. 31, 2004	1.50	0.90
1 st Quarter of Fiscal 2004 Mar. 1, 2004 – May 31, 2004	1.75	0.95
4 th Quarter of Fiscal 2003 Dec. 1, 2003 – Feb. 29, 2004	1.39	0.91
3 rd Quarter of Fiscal 2003 Sept. 1, 2003 – Nov. 30, 2003	1.57	1.03
2 nd Quarter of Fiscal 2003 June 1, 2003 – Aug. 31, 2003	1.86	1.16
1 st Quarter of Fiscal 2003 Mar. 1, 2003 – May 31, 2003	2.49	1.50

(c) for the most recent six months:

Period	High \$	Low \$
April 1 - 30, 2005	0.91	0.71
March 1 – 31, 2005	0.87	0.81
February 1 – 28, 2005	0.89	0.80
January 1 – 31, 2005	0.96	0.80
December 1 – 31, 2004	1.06	0.83
November 1 – 30, 2004	0.99	0.78

C. *Markets.*

The Company's common shares have been quoted on the NASDAQ Small-cap Market since August 3, 1993. The ticker symbol is LBIX.

On May 8, 2002 the Company's common shares were listed on the Toronto Stock Exchange ("TSX") under the ticker symbol LBI. On April 8, 2003 the Company voluntarily delisted its shares from the TSX.

Item 10. – Additional Information.

A. *Share capital*

This item is not applicable for an Annual Report.

B. *Memorandum and articles of association.*

This information has been previously reported and is incorporated by reference.

C. *Material contracts.*

There are no additional material contracts, other than those discussed elsewhere in this report.

D. *Exchange controls.* Canada has no system of exchange controls. There are no exchange restrictions on borrowing from foreign countries or on the remittance of dividends, interest, royalties and similar payments, management fees, loan repayments, settlement of trade debts, or the repatriation of capital. Any such remittances to United States residents, however, may be subject to withholding tax.

E. *Taxation.* A brief and general description is included below of certain taxes, including withholding taxes, to which United States security holders may be subject under the existing tax laws and regulations of Canada. The consequences, if any, of provincial taxes are not considered.

Please note that the following information is a brief summary only and security holders should seek the advice of their own tax advisors with respect to the applicability or effect on their own individual circumstances of the matters referred to herein and of any United States federal, state or local taxes.

Taxation on Dividends

Generally, cash dividends paid or deemed to be paid by a Canadian corporation to non-resident shareholders are subject to a withholding tax of 25%. Dividends paid to US residents are subject to a withholding tax of 15%, and dividends paid to a US resident company which owns 10% or more of the voting shares of the Canadian corporation are subject to a withholding tax of 5%. Dividends paid by a Canadian corporation to shareholders resident in Canada are not subject to withholding tax.

Taxation on Capital Gains

Generally the disposition by a non-resident of shares of a Canadian public corporation is not subject to Canadian income tax, unless such shares are “taxable Canadian property” within the meaning of the Income Tax Act (Canada) and no relief is afforded under any applicable tax treaty. The shares of the Company would be taxable Canadian property of a non-resident purchaser if the non-resident purchaser used the shares in carrying on a business in Canada, or if the non-resident, together with persons with whom he does not deal at arm's length, owned 25% or more of the issued shares of any class of the capital

stock of the Canadian corporation at any time during the five-year period immediately preceding the disposition.

In addition, Canada may tax capital gains realized by an individual resident in the United States on the disposition of shares of a Canadian corporation if the following conditions are met:

- the individual was resident in Canada for 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition of shares, and
- the individual owned the shares when he ceased to be resident in Canada.

Holders of common shares of the Company should seek independent advice from their own professional tax advisers with respect to the income tax consequences arising from the holding of common shares of the Company.

F. *Dividends and paying agents.*

This item is not applicable.

G. *Statement by experts.*

This item is not applicable.

H. *Documents on display.*

Copies of documents concerning the Company, which are referred to in this Report, are available for inspection at the head office of the Company located at Suite 1800 – 1500 W. Georgia Street, Vancouver BC Canada V6G 2Z6.

I. *Subsidiary Information.*

This item is not applicable.

Item 11. – Quantitative and Qualitative Disclosures About Market Risk.

The table below shows the long term debt whose fair value is subject to market risk as interest rates change.

FIXED INTEREST RATE

LONG TERM DEBT

	Mortgage	Note Payable
Interest Rate	4.53%	8.0%
Principal at February 28, 2005	586,430	88,334
Principal payments by year:		
2006	29,991	88,334
2007	31,378	
2008	32,829	

2009	34,283	
2010 and thereafter	457,949	
TOTAL	<u>586,430</u>	<u>88,334</u>

The fair value of this debt decreases as market interest rates increase. The fair value of this debt is estimated at \$679,000 as at February 28, 2005 as disclosed in note 19 (a) of the financial statements.

VARIABLE INTEREST RATE DEBT

	Operating Loan	Term Loan
Interest Rate	prime + 0.75% to 1.25%	prime + 1.0%
Principal at February 28, 2005	<u>2,512,897</u>	<u>3,186,508</u>

Principal payments by year:

2006		829,104
2007		829,104
2008		829,104
2009		699,196
TOTAL	<u>-</u>	<u>3,186,508</u>

The fair value of this debt is equal to the book amount. Future cash flows will be adversely impacted by interest rate increases.

Item 12. – Description of Securities Other than Equity Securities.

This item is not applicable.

PART II

Item 13. – Defaults, Dividend Arrearages and Delinquencies.

This item is not applicable.

Item 14. – Material Modifications to the Rights of Security Holders and Use of Proceeds.

- A. There were no material modifications to the rights of the Company's shareholders during the fiscal year ended February 28, 2005.
- B. There were no material modifications to any class of securities during the fiscal year ended February 28, 2005.

- C. There has been no material withdrawal or substitution of assets securing any class of registered securities of the Company.
- D. There has been no change of trustee or paying agent for any registered securities.
- E. This item is not applicable.

Item 15. - Controls and Procedures.

Based on their evaluation as of February 28, 2005, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act") are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Act is recorded, processed, summarized and communicated to them as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls during the period covered by this annual report that could significantly affect the Company's internal controls over financial reporting.

Item 16A. – Audit Committee Financial Expert.

The Company's Board of Directors has determined that the Company has at least one audit committee financial expert, Mr. Douglas Carlson, serving on its audit committee. For details on his professional career, see "Item 6. Directors, Senior Management and Employees".

Item 16B. – Code of Ethics.

The Company has adopted a code of business conduct and ethics, which is attached as an exhibit to this report.

Item 16C. – Principal Accountant Fees and Services.

- a) Audit Fees – Audit fees billed for the fiscal years ended February 28, 2005 and February 29, 2004 totaled \$55,919 and \$85,259 respectively.
- b) Tax Fees - Tax fees billed for the fiscal years ended February 28, 2005 and February 29, 2004 totaled \$Nil and \$12,821 respectively.
- c) All Other Fees – Other fees billed for the fiscal year ended February 28, 2004 totaled \$1,218 and to date, there were no other fees billed for the fiscal year ended February 29, 2005.

The audit committee approves all audit, audit-related services, tax services and other services provided by BDO Dunwoody LLP. Any services provided by BDO Dunwoody LLP that are not specifically included within the scope of the audit must be pre-approved by the audit committee in

advance of any engagement. Under the Sarbanes-Oxley Act of 2002, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a de minimus exception prior to the completion of an audit engagement. In 2004, none of the fees paid to BDO Dunwoody LLP were approved pursuant to the de minimus.

Item 16D. – Exemptions from the Listing Standards for Audit Committees.

None

Item 16E. – Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

During 2002, the Company repurchased 108,400 of its issued and outstanding shares. These shares were cancelled during 2003, and no further shares have been repurchased.

P A R T I I I

Item 17. – Financial Statements.

The Consolidated Financial Statements of Leading Brands, Inc. for the year ended February 28, 2005, February 29, 2004 and February 28, 2003 are attached to this report.

Item 18. – Not applicable.

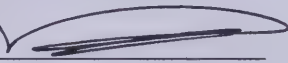
Item 19. – Exhibits.

Exhibit No.	Description
1.1	Certificate of Incorporation and Articles and amendments to the Articles and Memorandum of the Company, incorporated by reference from prior filings.
2.1	Information Circular dated May 25, 2005.
11.1	Code of Business Conduct and Ethics
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

LEADING BRANDS, INC.

Re 

Ralph D. McRae
Chairman and Chief Executive Officer

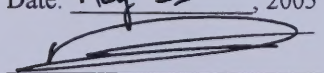
Dated: May 25, 2005

CERTIFICATIONS

I, Ralph McRae, certify that:

1. I have reviewed this annual report on Form 20-F of Leading Brands, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

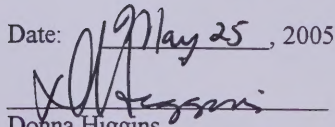
Date: May 25, 2005


Ralph D. McRae
Chairman and Chief Executive Officer

I, Donna Higgins, certify that:

1. I have reviewed this annual report on Form 20-F of Leading Brands, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors:
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 25, 2005

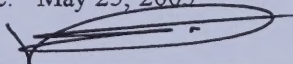

Donna Higgins
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Leading Brands, Inc. (the "Company") on Form 20-F for the period ended February 28, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

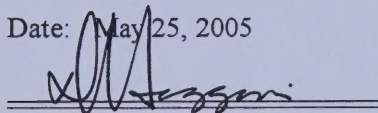
Date: May 25, 2005

A handwritten signature in black ink, appearing to read "R. McRae", is written over two horizontal lines.

Name: Ralph D. McRae

Title: Chief Executive Officer

Date: May 25, 2005

A handwritten signature in black ink, appearing to read "Donna Higgins", is written over two horizontal lines.

Name: Donna Higgins

Title: Chief Financial Officer

